

MONTANA
Department of Commerce



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2009 Biennium Goals & Objectives

Department of Commerce:

The Department of Commerce strives to enhance the economic prosperity for all Montanans. The Department works with our customers (economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public) to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of our infrastructure, housing and facilities.

The Department is composed of eight major divisions as follows:

Business Resources Division

- Board of Research and Commercialization Technology
- Regional Development Bureau
- Census & Economic Information Center
- Trade & International Relations Bureau
- Small Business Development Center Bureau

Montana Promotion Division

- Film Office
- Marketing
- Tourism Development
- Electronic Marketing
- Industry Services and Operations

Community Development Division

- Coal Board
- Hard Rock Mining Impact Board
- Treasure State Endowment Program
- Community Development Block Grant Program

Montana Facility Finance Authority

Housing Division

- Board of Housing
- Housing Assistance Bureau

Board of Investments

Montana Heritage Commission

Director's Office/Management Services Division

- Director's Office
- Management Services Division
- Montana Council on Developmental Disabilities

The Department is mandated in 2-15-18, MCA.

Mission:

The Department of Commerce through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana; fosters community lead diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana's positive national and international image.

Goals and Objectives:

- Working in partnership with our customers who are economic development organizations, businesses, and communities, governmental entities, elected officials, and the public to improve the state's economy through business creation, expansion, retention, and diversification of the state's economic base.
- Provide direct technical assistance and training for Montana's entrepreneurs, businesses, and their employees in partnership with communities, counties, and local and regional development groups.
- Enhance the growth of the Montana economy through the promotion of tourism development, promoting and protecting historic sites, and the marketing of Montana as a travel and filmmaking destination.
- Promote access to new markets, both foreign and domestic, for Montana goods and services.
- Provide financing for homeownership and rental assistance opportunities for Montana families.
- Developing courses of action and statutory changes which facilitate the growth and health of responsible business enterprises in Montana.
- Develop and improve public infrastructure and housing opportunities for the state's citizens by providing grants and technical assistance to Montana communities and counties.
- Prudently manage the investments of state and local government funds.
- Fair and equal treatment of our fellow employees, customers, and those who might serve us as volunteers, and with whom we contract for services.

Business Resources Division:

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, the Governor's Office, the Legislature, economic and community development partners, other department divisions, state agencies, and federal and private programs; the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts.

Business Resources Division responsibilities are mandated primarily in Title 30, Chapter 16; Title 17, Chapter 6; and Title 90, Chapter 1 and 10, MCA.

Mission:

The mission of the Business Resources Division is to deliver information, technical assistance, and financial resources to communities and businesses in Montana resulting in the development and prosperity of our state.

Research & Commercialization:

The Board of Research and Commercialization Technology was created by the 1999 Montana Legislature to provide a predictable and stable source of funding for research and commercialization projects and to expand and strengthen research efforts for the state's basic industries to increase their economic impact on the state economy; and to expand research efforts into areas beyond the scope of the basic industries to diversify and strengthen economic security through the creation of technology-based operations and long-term quality jobs.

The board has the statutory authority to make grants or loans to research and commercialization centers if the projects to be funded:

- Have potential to diversify or add value to a traditional basic industry of the state economy
- Show promise for enhancing technology-based sectors or commercial development of discoveries
- Employ or take advantage of existing research and commercialization strengths
- Have a realistic and achievable project design
- Employ an innovative technology
- Are located in the state
- Have a qualified research team
- Have scientific merit based on peer review
- Include research opportunities for students

Mission:

The mission of the Montana Board of Research and Commercialization Technology is to support the development of research and technology that has commercial potential within Montana by providing leadership and funding resources for those activities.

Goals and Objectives:

Award authorized funds to research and commercialization projects with significant potential to improve the state's economy by:

- Supporting production agriculture projects that improve production capability, value-added opportunity and alternative crop options;
- Supporting projects that have the involvement of private companies;
- Supporting projects that enhance the state's research infrastructure;
- Supporting projects that show a clear path to commercialization in Montana; and
- Providing oversight management of awarded grants.

PERFORMANCE	CY 2005 Cumulative	Plan CY 2006 Cumulative	Plan CY 2007 Cumulative	Plan CY 2008 Cumulative	Plan CY 2009 Cumulative
Total Award Funding	\$ 22.2M	\$ 25.7M	\$ 29.2M	\$ 31.3M	\$ 33.5M
Matching Funds	\$ 28.7M	\$ 31.2M	\$ 33.7M	\$ 33.7M	\$ 33.7M
Follow-on Funding	\$115.8M	\$125.8M	\$135.8M	\$145.8M	\$155.8M
Total Payroll Expenditures	\$ 68.7M	\$ 75.0M	\$ 81.3M	\$ 85.0M	\$ 90.3M
Production Agriculture Funding	\$ 7.6M	\$ 8.3M	\$ 9.0M	\$ 9.0M	\$ 9.0M

Regional Development Bureau:

Montana Finance Information Center:

The Montana Finance Center provides summary information for the most significant financing resources available from state, federal, and local institutions. The Montana Finance Information Center website is organized as much as possible by source and point of application. Preference

for organizational purposes is given to the actual level that provides funding to businesses and local governments. The web address for the Finance Information Center is <http://www.mtfinanceonline.com/>.

The Finance Information Center has responded directly to numerous email requests for information and has developed dozens of specific finance option summaries for business proposals, including business recruitment activities conducted by the Governor's Office. As additional credible sources of finance and technical assistance are discovered, they are included within the resources of the website.

Objectives:

- Continue to update and keep current the finance and technical assistance information on the website.
- Continue to research information that would be useful to include in the website.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Visits	38,900	40,000	48,000	56,000	64,000
Average Visits per month	3,240	3,333	4,000	4,667	5,333

Regional Development Officers:

There are five Regional Development Officer's (RDO) assigned to a regional area as a representative of the Montana Department of Commerce. The RDOs live in their regions and are a resource to businesses, local development corporations and communities in the area. The program serves as an access point to all relevant Commerce Department resources, and all other relevant business and community development resources. A primary purpose of the program is to provide technical assistance to businesses for the purpose of obtaining financing for start-ups, expansions, business locations from out of state, and retention.

Objectives:

- Ensure that all areas of Montana have reasonably equal access to funding and technical assistance resources, especially the Community Development Block Grant (CDBG) Fund, the Big Sky Economic Development Trust Fund, Workforce Training programs, WIRED, Indian Country Economic Development, etc.
- Develop close and effective working relationships with businesses and the resources that benefit them in their efforts to grow and create new employment in Montana.
- Improve the capacity of local development efforts through technical assistance and fund raising. This includes close involvement with the Certified Regional Development Corporations program.
- Work closely with the Governor's Office of Economic Development and other state agencies involved in economic development, such as the Department of Agriculture.

It is important to note that the major projects worked on by the Regional Development Officers always include significant levels of cooperation between businesses, local development organizations, local governments, banks, federal and state agencies and all available business resource programs, including the Montana Manufacturers Extension Centers. The RDO program works closely with Montana Manufacturing Extension Center (MMEC) and the Regional Development Bureau has provided grant funding for several years to MMEC in order to expand its efforts working with Montana Manufacturers. The RDO program will also be integrally involved

working with the Montana Agricultural Innovation Centers currently being established in Montana.

The focus defined in the guidelines of most Regional Development Bureau technical assistance and finance programs is to assist value-adding businesses, such as manufacturers. The intent is not to take credit for the projects but to show the extent to which positive results are being achieved through the hard work of all entities involved. Regional Development Officers facilitate, coordinate, and expedite business projects by working with others in the regions they serve.

In 2005, the RDO program was involved with 34 completed business and community development finance projects that resulted in approximate **new financing of \$55,682,592 dollars** in Montana. The projects project the **creation and retention of 1,700 jobs** based on the business plans utilized in the finance packages.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Completed Business Projects	34	40	40	40	40
Job Creation and Retention	1,700	1,700	2,000	2,000	2,000
Business Financing	\$55,682,592	\$60,000,000	\$65,000,000	\$65,000,000	\$65,000,000
Total Project Investment	\$55,682,592	\$60,000,000	\$65,000,000	\$65,000,000	\$65,000,000

Community Development Block Grant (CDBG) Program:

The Montana Department of Commerce receives approximately \$2.3 million each year from the federal Department of Housing and Urban Development for Economic Development. These funds are administered by the Business Resources Division and distributed to communities for loans to businesses to stimulate economic development activity that creates or retains jobs primarily for individuals from low and moderate-income families. The program assists businesses by providing flexible interest rates and loan terms to complement conventional bank financing and other federal and state finance programs. The program also provides funding for infrastructure in support of business and job training. Loan repayments are retained locally to re-lend to other businesses in the community, thus creating a local revolving loan fund.

The program reviews applications for funding on a continuous open cycle throughout the year. Projects are selected for funding by considering the overall feasibility, long-range economic impact, and the number of jobs that would be made available to low and moderate income persons in the community.

Objectives:

Based on years of public comment, enforcement of federal program objectives and various studies conducted through the years for the program and economic development generally, the program's objectives for assisting business development in Montana are to:

- Increase viable economic development projects that promote investment of private capital, expansion of local tax bases, and creation of permanent year-round jobs principally for low and moderate income Montanans;

- Increase economic activity, which adds value to a product through manufacturing, refining, processing, or packaging, especially those activities that involve Montana's natural resources;
- Increase economic activity, which creates new wealth in Montana by selling the majority of its products outside of Montana, by effectively substituting goods previously produced outside of Montana with goods produced in Montana, or by distributing Montana-made goods;
- Increase service companies such as consulting, engineering, or other companies that sell their services predominantly (greater than 50%) outside of Montana;
- Allow local communities to identify their own needs and develop their own initiatives;
- Assist businesses and communities in achieving economic prosperity by using program resources to leverage other private and public resources;
- Assist new and expanding businesses with employee training needs;
- Assist micro-enterprises through technical assistance funding;
- Assist small business participation in gaining access to federal funding for R&D through the State of Montana Small Business Innovative Research (SBIR) program;
- Place a priority on projects that create higher paying jobs.
- Fund more high-technology businesses and manufacturing operations, including value added agricultural products, based on current demand. Over the past five years, more than ½ of the projects funded were in the technology and manufacturing sectors.
- Help create over 200 jobs per year, of which, over 51% will be held or made available to low and moderate-income persons.
- Leverage \$12 to \$13 of other funds for each \$1 of program funds.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Job Creation and Retention	184	200	200	220	220
Planning Grants	13	6	6	6	6
CDBG Business Financing	\$3,978,236	\$2,200,000	\$2,200,000	\$2,200,000	\$2,200,000
Total Project Investment	\$15,103,141	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000

NOTE: Calendar year 2005 included CDBG funds carried over from previous year

Montana Microbusiness Finance Program:

Montana's MicroBusiness Development Corporations (MBDCs) provide financing and technical assistance to help a business get started or to expand. The Department of Commerce loans money to the MBDCs who in turn loan out the money at a slightly higher interest rate. The MBDCs make loans up to \$35,000 for working capital, equipment, or other fixed assets for qualified micro-businesses. A qualified micro-business must be a Montana-based business that has ten or fewer employees and less than \$500,000 in annual revenues. To qualify for a loan the business needs to meet local lending criteria. Since the intent of the program is to finance business projects that would not otherwise be able to obtain financing from sources such as their local bank, the interest rates charged on the loans are slightly higher than bank rates.

Objectives:

- Increase awareness of the availability of micro-loan funds through marketing efforts at the local and state level.
- Cultivate effective working relationships between MBDC staff and other resources, to assist Montana businesses in obtaining financing.

- Ensure that the state funds are actively revolving through more effective local loan fund administration and reallocation of unloaned funds.
- Improve the capacity of the MBDCs to provide loans and technical assistance:
- Improve the capacity of the MBDCs to underwrite and service their microloan portfolios.
- Improve the capacity of the MBDCs to provide training and technical assistance to their customers.
- Encourage the development and growth of Montana micro-businesses by supporting the provision of financing services.

Since Its Inception (1992) through 12/31/05

* Number of loans to micro-businesses:	879
* Dollar amount loaned to micro-businesses:	\$15,034,039
* Jobs created and retained by businesses receiving loans:	1,862

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Total Number of New Loans	35	40	45	50	50
Dollar Amount of New Loans	\$953,805	\$1,000,000	\$1,000,100	\$1,000,200	\$1,000,200
Cumulative Loans	879	919	965	1015	1065
FTEs Created	55	60	65	70	75
FTEs Retained	55	60	65	70	75

Big Sky Economic Development Trust Fund:

The legislative purpose of the Big Sky Economic Development Fund is to:

- Create good-paying jobs for Montana residents,
- Promote long-term, stable economic growth in Montana,
- Encourage local economic development organizations,
- Create partnerships between the state, local governments, and local economic development organizations that are interested in pursuing these same economic development goals,
- Retain or expand existing businesses, and
- Provide a better life for future generations through greater economic growth and prosperity in Montana.

On July 1, 2005, initial funding was transferred from the coal severance tax permanent fund to the Big Sky Economic Development Fund (Trust Fund). In addition a portion of the total coal severance taxes collected annually are deposited into the Trust Fund. Earnings (interest only, not principal) from the Trust Fund are available for financial assistance to local governments and economic development organizations through application to the Department of Commerce.

The Trust Fund program is designed to provide financial assistance in the following two categories:

Category I: 75% of Trust Fund earnings shall be awarded to local governments in the form of grants and loans for economic development projects.

Category II: 25% of Trust Fund earnings shall be awarded to Certified Regional Development Corporations and other eligible economic development organizations in the form of grants for economic development planning and capacity building.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Total Amount of Financial Assistance	\$1,000,000	\$1,200,000	\$1,400,000	\$1,600,000	\$1,800,000
New Jobs Created	140	180	220	260	280

Certified Regional Development Corporations:

This program provides statutory funding for up to 12 regional economic development organizations (Certified Regional Development Corporations) on a matching grant basis of \$1 state dollar for every local \$1.

Objectives:

- Encourage a regional approach to economic development that facilitates the efficient delivery of economic development programs by supporting regional capacity building.
- Work towards including the counties in Montana that are not currently part of a CRDC.
- Receive and evaluate CRDC annual reports for compliance with contracts.
- Implement the Treasure Communities Program.
- Survey CRDC's to receive input on the implementation of the Treasure Community program.
- Work with CRDC's to enhance and build their capacity to serve their constituent counties, communities, and citizens in the areas of technical assistance, finance, regional planning, and grant administration.
- Evaluate and make recommendations for improvement in the CRDC program.
- Continue to help administer the Economic Development Advisory Council meetings by proposing agenda items, performing research and analysis where needed and requested, and implementing suggestions made by the Council with the approval of DOC management.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
# of CRDCs	11	12	12	12	12
5-Year Strategic Plans	11	12	12	12	12
# of Counties Covered	52	54	56	56	56
Dollars Provided	\$425,000	\$425,000	\$425,000	\$425,000	\$425,000

Workforce Training Grant Programs :

Primary Sector Workforce Training Grant (WTG): There are currently two Commerce programs that are principally focused on providing job training grant funds to Montana workers. The **Primary Sector Workforce Training Grant (WTG)** program is a state-funded program that was moved from the Governor's Office to the Department of Commerce during the 59th Legislature and is an essential component of Governor Schweitzer's economic development plans for Montana. There is \$1.3 million available annually for this program. This program is targeted to businesses that are creating at least ten net, new jobs that pay at least the lower of the current county average wage or the state current average wage.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Job Creation	397	360	360	360	360
Job Training Funds	\$1,985,000	\$1,300,000	\$1,300,000	\$1,300,000	\$1,300,000
Total Project Investment	\$33,272,844	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000

Workforce Investment Act (WIA): Governor Schweitzer has decided to use the discretionary component of the federally funded Workforce Investment Act (WIA) program that provides grants to Montana businesses in order to provide incumbent worker job training to existing and new employees. The Montana Department of Labor and Industry has provided federal grant funds to the Department of Commerce of which \$380,000 will be available for business applications. Montana businesses may apply directly to the Montana Department of Commerce to request **Workforce Investment Act (WIA)** funds.

The Department is targeting the workforce training grant programs to projects that can demonstrate tangible, measurable results involving employees working in the businesses that are receiving assistance. The Department may assign a Regional Development Officer to work directly with applicants that appear to have viable, eligible project proposals meeting the intent of one of these programs.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Jobs Trained	65	80	80	80	80
Job Training Funds	\$340,000	\$400,000	\$400,000	\$400,000	\$400,000
Total Project Investment	\$10,111,913	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000

Indian Country Economic Development Funds:

The Schweitzer Administration prepared and the Legislature approved an appropriation of \$500,000 for Indian economic development. The Department of Commerce has consulted with the State/Tribal Economic Development Commission on several occasions to get the Commission's recommendation about how that money should be invested in Indian Country.

The Department prepared a draft proposal that was reviewed by the State Tribal Economic Development Commission. The proposal included two initiatives. The first was to invite applications from each Reservation and the Little Shell Tribe for economic development projects. The maximum grant award for these projects is \$50,000. Spread among the seven reservations and the Little Shell, the total for this activity is \$500,000 per year.

Performance	FY 2006	FY 2007	FY 2008	FY 2009
Funding	\$500,000	\$500,000	\$500,000	\$500,000
Jobs C/R	134	50	50	50
Total Projects Funding	\$3,541,519	\$1,000,000	\$1,000,000	\$1,000,000

Montana Capital Companies:

The Montana Capital Company Act was designed to stimulate economic activity in Montana by providing tax credit incentives to investors in Montana capital companies, who in turn provide debt and equity financing to new or expanding qualified Montana Businesses. The Department of Commerce is responsible for oversight of the tax credits, qualified investments, and general

operations of capital companies. All tax credits that were available under the statute have been used or have expired. **All Capital Company tax credits have been allocated and all Capital Companies have been decertified pursuant to state law as having met their obligations under the certification agreements.**

Census and Economic Information Center (CEIC):

The Census and Economic Information Center provides demographic and economic data and analysis, GIS support, technical assistance and training. CEIC assists Montana businesses and communities along with schools and government agencies to access and use this information for decision-making.

Since 1978, CEIC has been the State of Montana's lead agency in the U.S. Census Bureau's federal-state cooperative State Data Center (SDC) and Business/Industry Data Center (BIDC) programs, and is a member of the U.S. Bureau of Economic Analysis (BEA) User Group. As such, CEIC has been the official repository of Montana Census data for the past 28 years. CEIC's responsibilities to the SDC/BIDC program, under the Memorandum of Agreement between the U.S. Bureau of the Census and the State of Montana, include the coordination of a 29-member statewide affiliate network.

CEIC provides access, education (in the form of workshops and presentations), and analysis of demographic and economic data as well as other federal and state statistical information. CEIC's special library collection contains historical and current census documents in print and electronic format. CEIC's comprehensive web site, <http://ceic.mt.gov/>, allows clients to research and collect data in an easily accessible, accurate, and timely manner.

Objectives:

- Provide client research services by:
 - Locating and providing data and information related to Montana's population, economics, businesses and other characteristics of the state;
 - Assisting clients in understanding data and data resources including analysis of data and data trends, workshops and training in accessing and using data from a variety of state and federal resources;
 - Interpreting and explaining significance of and relationship between the various economic statistics;
 - Preparing economic studies using economic tools, theories and modeling software to assist decision makers; and
 - Providing other technical assistance and training in using CEIC data.
- Increase data and information awareness and accessibility via Internet, E-mail, and personal contact by:
 - Providing 24/7 access to the full range of Montana demographic and economic data via CEIC's web site <http://ceic.mt.gov/>;
 - Providing in-depth analytical *Data Highlights* of new or revised Montana data via E-mail, CEIC web site, and quarterly *What the Numbers Say* newsletter, as statistics are released by federal agencies;
 - Allowing clients to retrieve pre-formatted tables of data and also retrieve the raw data for their analytical needs;
 - Allowing clients to search geographically, examine the spatial relationship among the data, and graphically visualize the tabular information; and
 - Allowing clients to access spatial data analytical tools and applications to integrate data from various sources.
- Provide geographic information system (GIS) capabilities by:
 - Assisting clients to identify, acquire, and use data in a GIS;

- Providing a clearinghouse of data from the U.S. Census Bureau and other agencies;
- Providing technical assistance and workshops to develop GIS applications related to demographic and socioeconomic needs; and
- Creating demographic, economic and administrative maps for clients and Commerce staff who do not have GIS capabilities.
- Provide specific training in availability and use of economic, demographic and spatial data to State Data Center Affiliate Network, other state agency employees, Commerce staff, various economic organizations and interest groups, and the general public. This effort will result in:
 - A more informed and stronger state network of State Data Center Affiliates;
 - A state employee labor force with better skills to access and utilize demographic and economic data in their everyday work; and
 - A more knowledgeable public with improved skills to manage and utilize new data products and resources, who understand the variety of data resources available to them from state and federal agencies.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Training Workshops	17	30	35	40	45
Training Participants	260	900	950	1000	1050
Data Highlights (in-depth analysis by subject)	28	30	35	40	45
Data Requests Via Phone, E-mail, Walk-in	893	925	1,000	1,250	1,400

Trade and International Relations Bureau:

The Bureau provides information and technical and marketing assistance to help Montanans pursue business opportunities, both domestically and worldwide. Export trade and marketing specialists provide consultation and training for companies to successfully compete in new markets. The Bureau highlights Montana made products via an Online Products Directory as well as a "Made in Montana" marketing initiative to identify and promote Montana products through the use of identifying labels. It also offers a wholesale trade show assistance program. Overseas trade offices are maintained in Taipei, Taiwan and Kumamoto, Japan to promote agriculture, tourism, value-added products, and higher education opportunities to markets in East Asia. The Bureau also serves as the protocol and international liaison for the Governor's Office and the Department of Commerce.

Objectives:

- Provide technical export and marketing assistance and training for Montana companies
- Maintain Montana's trade representative offices in Kumamoto, Japan and Taipei, Taiwan to promote Montana tourism, education, cultural exchanges and provide business assistance for Montana exporters
- Provide logistical support in organizing international trade and diplomatic missions
- Coordinate cultural, education, government, and business exchanges with Montana's sister-states Guangxi Zhuang Autonomous Region, People's Republic of China; Kumamoto Prefecture, Japan; and Taiwan Province, Republic of China on Taiwan
- Coordinate annual meetings between Montana, Alberta, and Saskatchewan government officials and business leaders to foster greater cross-border understanding and cooperation

- Serve as the protocol liaison for the State of Montana in coordinating meetings for representatives of foreign diplomatic offices and trade organizations with Montana officials
- Coordinate tourism promotions in East Asia with Travel Montana
- Coordinate the export of value-added agricultural products worldwide with the Montana Department of Agriculture

Export Technical Assistance:

Technical export assistance is provided to Montana companies by the Bureau's International Trade Officer. The Trade Officer provides Montana companies with information and training to address issues such as export regulation and compliance, methods of shipment, methods of payment, market research, response to trade leads, and follow-up communication with overseas clients. This export assistance provides valuable expertise for Montana companies to pursue new export markets. Failure to be in compliance with US export regulations and export/import protocols can cause cargo delays and loss of revenues, as well as subjecting companies and employees to possible fines and imprisonment.

Objectives:

- To provide technical assistance, research and training for Montana companies seeking to enter, or expand, export markets
- To conduct export workshops in Montana communities for training company employees in export compliance, documentation, etc
- To compile annual reports on Montana's export commodities, values, and destinations
- To maintain current information on export and import regulations
- To maintain an export information website www.exportmontana.com

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Export Counseling Cases	712	725	730	735	740
Export Training Workshops	8	5	6	6	6
Export Training Workshop Participants	48	30	35	35	35

Montana Marketing Technical Assistance Partnership (M²TAP):

The M²TAP is offered through a joint venture of the University of Montana, Montana Department of Commerce, the Montana Economic Developers Association (MEDA), and the Montana Manufacturing Extension Center (MMEC). The M²TAP offers a start-up or expanding Montana small business a marketing specialist who will assist them in performing strategic marketing analyses, and, using these results, create a strategic "business-to-business" marketing plan for a mutually selected product or product line.

Objectives:

The program is intended to assist Montana companies having the following characteristics.

- potential to generate new monies in Montana
- potential to create and retain Montana jobs
- current resources of staff and/or funding to conduct the marketing analysis and follow-through with the new marketing plan
- high probability of success in the present economy

Performance	CY 2006	CY 2007	CY 2008	CY 2009
Companies provided strategic marketing assistance	4	6	8	10
Marketing Workshops	1	6	8	8
Marketing Workshop participants	20	90	120	120

Trade Show Assistance Program:

This program assists Montana based companies in exploring new domestic and international wholesale markets by encouraging first-time exhibition at trade shows outside of the state. It is not only for companies new to trade show exhibition, but can also be useful for established companies who are looking to exhibit at a show that they have never been to before. It is not intended for a company to use for a trade show at which it has previously or currently exhibits.

The assistance comes in the form of fifty (50) percent reimbursement of qualified and approved expenses for trade show exhibition up to a maximum of \$3,000 (including bonus amounts).

Eligible Expenses:

- Booth/space rental
- Booth equipment, furniture, and carpeting rental
- Booth utility costs
- Promotional materials (product flyer specific to show, booth signage, etc.)
- Shipping, storage, drayage (cost of moving freight at exhibition site) and show labor

Objectives:

To provide assistance to Montana companies having the following characteristics:

- Private-sector, Montana based company providing a Montana based product/service or adding value to a product in Montana
- Exhibiting at a "business-to-business" (non-consumer) trade show outside of the state of Montana (USA or international)
- First-time participation in the specified show
- Presents documentation that the trade show is an appropriate venue for the company
- The Department of Commerce will make the final decision as to a company's eligibility for this program.

Performance	CY 2006	CY 2007	CY 2008	CY 2009
Trade Shows Attended by Montana companies participating in program	14	20	20	20

Made In Montana Trade Show, Internet, and Label Program:

The Made in Montana (MIM) program is designed to provide a unique identity to value-added products made and/or grown in Montana through the application of labels to Montana products. The program encourages businesses that meet the program requirements to utilize the trademarked image on their products. Since the inception of the program in 1984, over 27 million Made in Montana & Grown in Montana labels have been sold.

Objectives:

- Assist with the coordination of an annual state-wide Made in Montana Food and Gift Trade Show
- Evaluate training opportunities and provide effective training to MIM companies to better enable them to succeed in profitably producing and marketing their products
- Continue to identify and assist Montana companies who choose to use the Made in Montana label on their products
- Maintain an internet based Montana products directory with links to Montana companies' web-sites and work toward allowing MIM companies to update their company information via the internet. www.madeinmontanausa.com
- Help consumers and companies to identify products produced in Montana that are available to meet their needs
- Maintain a cooperative agreement with a private sector printer to produce and sell Made/Grown in Montana label products

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Made in Montana On-Line Products Directory company listings	1,137	1,250	1,300	1,350	1,400
Made in Montana label program participants	2,760	2,900	3,000	3,100	3,200

Overseas Trade Offices:

The Department of Commerce is responsible for maintaining the State of Montana's trade representative offices in Taiwan and Japan. The office located in Taiwan at the Taipei World Trade Center is responsible for trade relations in the greater China area and is referred to as the Montana Asia Pacific Trade Office. The Japan Trade Representative Office is located in Montana's sister-state, Kumamoto Prefecture. As part of a reciprocity agreement, the Kumamoto government provides Montana with rent-free office space and subsidized government housing for the Montana Trade Representative. The Trade Office Representatives work on an ongoing basis to promote and support the sales of Montana products.

Objectives:

- To promote Montana as an international tourism destination
- To help Montana companies successfully pursue trade opportunities in East Asia
- To promote Montana's value-added agriculture industry
- To promote Montana's higher education study opportunities for international students
- To provide logistical support for business, cultural, and government missions between Montana, Japan and Taiwan
- To maintain Chinese and Japanese language websites that provide Montana information and trade opportunities www.montana-chinese.org & www.bigskyjapan.com
- To generate news stories about Montana and track the paid advertising values

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Overseas Trade Shows	16	15	15	15	15
Overseas Montana Seminars	19	20	20	20	20
Overseas Media value	\$3,302,729	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000

Japanese website sessions	97,743	100,000	110,000	120,000	130,000
Chinese website sessions	63,790	70,000	80,000	90,000	100,000

Small Business Development Center Bureau:

Small Business Development Centers (SBDC's):

The mission of the Montana Small Business Development Center is to help start-up and existing businesses prosper by providing information and assistance through no-cost confidential, quality one-on-one counseling and training. With the Lead Center located in Helena, and sub-centers based in 10 major Montana communities hosted by local economic development organizations, the Montana SBDC delivery system is designed to reach the state's entire population with its services and programs.

Objectives:

- The SBDC will serve the state's business needs, both start-ups and existing, through training and counseling via ten statewide offices, Billings, Butte, Bozeman, Colstrip, Great Falls, Havre, Helena, Kalispell, Missoula and Wolf Point. It is expected that the program must continue to emphasize more group trainings for individuals interested in starting a business in order to provide more in-depth and longer-term one-on-one counseling to existing businesses and start-ups.
- The Montana SBDC program's two primary services are providing individualized counseling and group training in the areas of business plan preparation, starting a business, financial analysis, market research & analysis, loan packaging, accounting, promotion & selling, and general business management skills.
- In order to receive SBA grant funding, the SBDC network must meet ASBDC accreditation standards of quality. Business advisors participate in a certified training program and maintain this core level of skills by attending annual professional development sessions.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Clients counseled	1,592	1,590	1,600	1,610	1,620
Counseling Sessions	2,287	2,200	2,290	2,350	2,400
Counseling Hours	5,407	5,400	5,400	5,400	5,400
Training Workshops	211	210	215	215	215
Training Participants	3,176	3,100	3,200	3,250	3,250
Job Creation	330	330	330	330	330
Job Retention	419	420	420	420	420
Business Financing	\$36,372,502	\$33,000,000	\$33,000,000	\$33,000,000	\$33,000,000
Dollars Leveraged	\$1 State : \$5.00 Fed/Local	Same	Same	Same	Same

Montana Main Street Program (MMS):

The mission of the Montana Main Street Program is to assist Montana communities by providing a comprehensive approach to the revitalization of traditional business districts within the context of historic preservation. Through the National Trust Main Street Center approach of organization, promotion, design and economic restructuring, we will revitalize our communities, restore self-reliance and local empowerment, and redevelop an historical sense of community and pride.

Objectives:

- Implement the comprehensive, incremental Main Street Four-Point Approach to revitalization in designated Montana communities.
- Provide training, facilitation, consulting services and specialized services tailored to each communities needs.
- Serve as a resource for material and technical assistance for non-designated Montana communities.
- Coordinate with Department of Commerce Divisions and other agencies to maximize available resources to Main Street communities.

PERFORMANCE	FY 2006	Plan FY 2007	Plan FY 2008	Plan FY 2009
Designated Main Street Programs	6	8	10	12
Training & Workshops	6	14	16	16
Training Participants	100	150	205	225
Consulting Visits	3	14	18	20
General Info Sessions	3	15	15	15
Community Updates	6	28	36	36

Montana Small Business Innovation Research (SBIR) Program

Eleven federal agencies currently participate in the Small Business Innovation Research (SBIR) program. Those federal agencies with external R & D budgets in excess of \$100,000,000 are required by federal statute to have a SBIR program. Over \$1 billion is distributed throughout the United States annually to for-profit small businesses through the SBIR program. The SBIR technical assistance will assist small Montana companies in competing for a larger piece of this federal R & D funding. Increasing the number of SBIR awards in Montana will play a key role in creating a growing technology business base in the state, a primary engine of growth.

Objectives:

- Increase the knowledge base of SBIR candidates pursuing the grant process in the federal SBIR program. Up to 255 hours of one-on-one counseling/coaching will be set aside for one-on-one counseling annually.
- Increase the quality of awards being submitted by conducting twenty Phase 1 & 2 proposal reviews annually.
- Maintain the number of Phase 1 awards at 25, through SBIR coaching provided by MDOC contracted consultants.
- Increase the number of Phase 2 awards from seven to ten. This increase will be enhanced because of SBIR coaching provided by MDOC
- Sponsor the Phase 0 grant program which will offer \$5,000 grants to upwards of 8 companies. This will be in conjunction with the University of Montana.
- Increase the conversion rate of Phase 0 to Phase 1 awards from 40% to 80%. In order to increase the conversion rate, the quality of work must be improved. This improvement will occur because award-winning recipients will be mandated to procure SBIR counseling services with a portion of their \$5,000 award.
- Conduct one general SBIR seminar in northeastern Montana that will reach participants.
- Produce an aerospace conference that will reach 125 participants. This is a one-time function that MDOC helped establish. The Montana Aerospace Development Association will now solely produce the annual event.

- Continue to serve the seasoned SBIR winners by sponsoring and producing advanced seminars. During the calendar year several advanced-level seminars (licensing, marketing, patent searching) will be conducted reaching 50 participants. In order to maintain the quality of these advanced seminars, class sizes will be limited to 15 or 25 participants.
- Provide up to 250 hours of SBIR counseling in 2006.
- Convene and facilitate two meetings of the State Technology Partnership Committee annually.
- Serve on the Tech Transfer sub-committee of the Shared Leadership for a Stronger Montana Economy group.
- Continue to build and maintain the list serve of 576 subscribers. Continue to increase the subscription numbers to 650.
- Convene a discussion with key economic leaders (private sector researchers and university tech transfer officials) to address the role research revenues play in Montana's economy, explore gaps that impede strong economic development in this area.

PERFORMANCE	Actual CY 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009
Total SBIR Clients	74	79	84	25	25
Counseling Hours	268	268	268	75	75
Training Workshops	12	12	12	4	4
Training Participants	480	300	300	100	100
Phase 1 SBIR Awards	24	30	33	22	22
Phase 1 SBIR Award Revenues	\$1,939,881	\$2,000,000	\$2,000,000	\$1,000,000	\$1,000,000
Phase 2 SBIR Awards	7	8	9	10	10
Phase 2 Award Revenues	\$4,375,002	\$5,000,000	\$5,500,000	\$5,000,000	\$3,000,000
Phase 1 STTR Awards	2	3	4	4	4
Phase 1 STTR Revenues	\$237,162	\$330,000	\$400,000	\$400,000	\$400,000
Phase 2 STTR Awards	1	2	3	3	3
Phase 2 STTR Revenues	\$750,000	\$1,150,000	\$2,250,000	\$2,000,000	\$2,000,000

The Entrepreneur Development Program/NxLevel:

The Entrepreneur Development Program/NxLevel(formerly the Microbusiness Technical Assistance Program) is funded through the general fund and a grant from the State Tribal Economic Development Commission (STED). The goal of the program is to provide business planning courses to entrepreneurs starting a business and business owners who are growing and professionalizing their business. The program is a state/community partnership that includes local organizations that host the SBDC, community chambers of commerce and community colleges. The program develops successful business owners by giving them the professional marketing, operational and financial tools they need to maximize their business success. The program supplements business counseling and workshops with a comprehensive adult learning environment developed around a 13 week program that includes guest speakers from the business community, instructors with business experience, and a curriculum specifically designed to develop business planning skills and a business plan. The program utilizes the NxLevel Entrepreneur curriculum. In particular, the program is focused on developing the capacity of Indian organizations on the Reservations to mentor and support business owners through classroom training, workshops, counseling and lending.

Objectives:

- Provide a business-planning course in Montana communities that builds the professional management skills of Montana entrepreneurs and small business owners.
- Develop classroom training with the community-based organization that has the greatest capacity to deliver services for the business owners and entrepreneurs in their region.
- Expand Native American business ownership on the seven Indian Reservations of Montana and the Little Shell Tribe.
- Partner, network and collaborate with Federal, State, and community organizations, especially the State Tribal Economic Development Commission (STED), the Montana Indian Business Alliance (MIBA) and the Small Business Development Centers (SBDC) to develop the capacity of organizations mentoring business owners and entrepreneurs in the Reservation communities.
- Continue to provide business management classroom training to organizations that serve specific populations including veterans, dislocated workers, people with disabilities, and other people in need who are seeking self-employment as a path to economic self-sufficiency.

PERFORMANCE	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Training Sites	26	26	20	20	20
Training Participants	333	330	325	335	340

Montana Promotion Division:

The Montana Promotion Division strives to strengthen Montana's economy through increased visitor travel, visitor expenditures, and film production, in the state. The division works to project a positive image of the state through consumer advertising, electronic marketing, publicity, international and domestic group travel marketing, printing and distribution of literature, assisting in the development of tourism infrastructure and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes infrastructure grants and oversees expenditures of six regional non-profit corporations and the eleven qualified convention and visitors bureaus.

The Montana Promotion Division is primarily funded by the statutorily appropriated lodging facility use tax.

Montana Promotion Division responsibilities are mandated primarily in Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

Mission:

To strengthen Montana's economy through the promotion of the state as a vacation destination and film location; by maximizing the combined talents and abilities of its staff: and with guidance from the Governor's Tourism Advisory Council: the Montana Promotion Division strives to promote a quality experience to visitors while encouraging preservation of Montana's environment and quality of life.

Goals and Objectives:

The Division is funded primarily by the statutorily appropriated 4% lodging facility use tax. With this funding and in support of our mission, the Division works to project a positive image of the state through consumer advertising, electronic marketing, publicity, international and domestic group travel marketing, printing and distribution of literature, and marketing to motion picture

and television production companies. In addition, bed tax monies are also used to provide training and assistance to the Montana tourism industry, administer and distribute infrastructure grants, and oversee expenditures of six regional non-profit corporations and the eleven specific cities and resort area districts.

Film Promotion (Montana Film Office):

The Montana Film Office promotes the state as a location for feature films, commercials, television, documentaries, music videos, and still photography by providing information, scouting, and support services to the motion picture industry – including producers, directors, location managers and studio executives. The Montana Film Office also serves as the point of contact for the certification process to qualify for film tax incentives.

Tourism Promotion (Travel Montana):

Marketing:

Consumer Marketing:

Travel Montana's consumer marketing program is designed to position Montana's vacation opportunities in the minds of consumers, motivating them to consider Montana as a prime visitor destination. Paid advertising, including joint ventures with private-sector tourism industry partners and other appropriate state travel offices, is the major marketing tool used to reach this goal.

Group Marketing:

Montana's domestic group travel program promotes Montana's many group tour and travel opportunities by marketing directly to group tour operators throughout the United States and Canada. Montana is promoted as a tour destination, as well as a viable stopover on tour itineraries. This program markets all seasons in Montana and encompasses activities from sightseeing to river rafting and skiing. Its goals are to: provide tour operators with the tools to build a successful Montana tour itinerary; generate more awareness of statewide group tour products, including Lewis and Clark Trail attractions and events of interest to the group tour market; create more interest in Montana as a group tour destination.

Meetings and Conventions Marketing:

Montana's meeting and convention program works closely with the state's eleven convention and visitor bureaus and convention properties to market the state as a destination for meetings and groups of any size.

Overseas Marketing:

Travel Montana aggressively promotes Montana as a destination to the international travel trade, with emphasis on the United Kingdom, Germany, France, Belgium, the Netherlands, Italy, Japan and Taiwan. The program involves working with key tour operators, wholesalers, travel agencies and the media to establish new Montana itineraries for groups and Foreign Independent Travelers (FITs), while assisting Montana businesses in their marketing efforts overseas.

The program also works with the Commerce Department's Trade office representatives in Taipei, Taiwan, and Kumamoto, Japan, to promote Montana as a vacation destination to tour operators and media in those countries.

Publications:

Travel Montana publications provide flavorful and factual coverage of Montana's year-round recreation and attractions to visitors of all ages. They are often a potential visitor's first glimpse at what Montana has to offer and play an important part in the vacation planning process of travelers. In addition, the publications are used as the fulfillment component to our consumer marketing efforts. Providing accurate, reader-friendly information, the guides are easy to use and visually portray Montana at its best. The publications also present Montana businesses with affordable opportunities to advertise through its consumer guides.

Publicity:

Publicity is one of the most believable and effective types of exposure a travel destination can receive. Travel Montana uses an aggressive plan to generate editorial exposure in national and international magazines, newspapers and television shows, as well as regional and local publications.

Photography:

Beautiful and enticing photographs are an important component of all of our marketing efforts, from publications to the various Internet sites. In addition, the tourism office annually receives numerous requests from tour operators and media for images to use in their Montana promotional plans. Our staff photographer ensures that the appropriate images are available for the marketing department, Film Office, Department of Commerce and for our tourism suppliers, trade and media contacts.

Tourism Development and Education:

The Tourism Development and Education efforts are focused on helping the state's communities and businesses utilize tourism as a tool to improve the local, regional and state economy while protecting or improving the quality of life for Montana's residents. The components of the Tourism Development and Education programs include: rural tourism development; statewide tourism infrastructure improvements grants and technical assistance; financial and technical assistance in creating new, ongoing special events as part of a community or region's economic development efforts; assisting Montana's Indian people in their tourism efforts; helping create cultural tourism partnerships and products statewide; coordinating tourism and recreation policies, programs and initiatives of federal and state agencies, communities, and the private sector; and providing customer service and tourism education training programs.

Tourism Development also supports Montana's State sponsored Visitor Information Centers located in gateway communities throughout the state. These centers provide technologically advanced methods to provide tourism related information to our customers.

Electronic Marketing:

This program uses cutting-edge technologies to create state-of-the-art information systems. These systems are designed to complement the existing tourism marketing efforts. They have proven to be a cost-effective way to disseminate timely information to Montana residents and visitors and will continue to play a crucial role in Travel Montana's marketing efforts. The

electronic marketing program manages or hosts twenty-eight websites offering tourism, recreation and film location information to Internet users.

Industry Services:

Industry services supports nonprofit tourism organizations and private-sector businesses to enhance and strengthen marketing efforts that increase business, as well as provide opportunities for the industry to unite and work together.

Operations:

Operations supports the fulfillment of the inquiries received via the electronic marketing and consumer marketing with publications, emails and customer interaction via a call center. This fulfillment utilizes a contact center as well as mailroom functions.

Community Development Division:

The Community Development Division works with federal, state, and local governments, private non-profit organizations, and private citizens, in regard to community planning and needs identification, planning and financing for the construction of public facilities, housing development for low and moderate income families, neighborhood revitalization, and coal and hard rock mining mitigation, as well as management of projects funded through division programs.

There are two major programs directly administered by the Division:

- The Community Development Block Grant Program (CDBG), and
- The Treasure State Endowment Program (TSEP).

The Montana Coal Board and the Montana Hard Rock Mining Impact Board are also attached to the Community Development Division for administrative purposes. The Division provides office facilities and necessary staff and administrative support for the boards.

These four programs provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, state and federally-recognized Indian Tribes, and private citizens. Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

- The Community Development Block Grant (CDBG) program is primarily funded with federal funds allocated through the U.S. Department of Housing and Urban Development (HUD) although the general fund provides a required match for a portion of the administrative costs of the program equal to three percent of the annual CDBG allocation.
- The Coal Board is funded from the oil, gas, and coal natural resource account established by the 2005 Legislature through HB 758.
- The Hard-Rock Mining Impact Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax.
- The Treasure State Endowment Program is funded by interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund. Fifty percent of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund for a 23-year period, which began in 1993.

The Community Development Division's responsibilities are primarily mandated in Title 90, Chapter 1 and Chapter 6, MCA; and federal authorizations 24 CFR 570, subpart 1; and 42 USC 5301.

Mission:

To provide technical and financial assistance to county and municipal governing bodies, planning boards, community development groups, human resources development agencies, private developers, consultants, and the public regarding community planning and needs identification, planning and financing for the construction of public facilities, community development and housing planning and financing; and coal and hard rock mining impact mitigation.

Goals and Objectives / Performance Indicators:

Coal Board:

The Coal Board, created by the Legislature in 1975, assists local governments, which have been required to expand the provision of public services as a consequence of large-scale coal development or a decline in coal-related activity. This seven-member board, appointed by the Governor, establishes administrative policies and implements state law. The Coal Board funds applications for grants awarded pursuant to 90-6-207, MCA, which provides guidelines for identifying those counties, communities, school districts, or other governmental entities that qualify as 'impacted' through the development, use, or decline of coal production.

Coal Board	Actual FY 2004	Actual FY 2005	Actual FY 2006	Estimated FY 2007	Requested FY 2008	Requested FY 2009
Applications	24	24	30	25	25	25
Grants	9	10	15	10	15	15
Board Meetings	4	4	4	4	4	4
Conference Calls	4	2	2	2	2	2

Coal Board Grants:

The Coal Board anticipates increased future demand for local impact grants due to increased activity involving coal mining and energy generation development as demonstrated by projects either already permitted or currently in the permitting or planning stage. These include the following projects:

- A coal-fired electric and wood co-generation plant has been completed in Thompson Falls that would burn 550 rail car loads of coal from the Bull Mountain Mine near Roundup annually. The plant is currently idle due to charges by the Montana Department of Environmental Quality that air-quality requirements have not been met. As of April 2006, the plant was seeking modification of its air quality permit.
- An MDU subsidiary, Centennial Power, has completed construction on a 160-megawatt coal-fired generating plant at Hardin. MDU has signed a three-year contract to sell the power from the plant to Powerex, a subsidiary of BC Hydro. The plant started operation in 2006.
- Bull Mountain Power has proposed a 780-megawatt pulverized coal-fired generating plant using 2.7 million tons of coal per year from the Bull Mountain Mine at Roundup. The Montana Environmental Information Center has appealed the air quality permit issued by the Montana DEQ for the project. The Bull Mountain Mine produced 168,063 tons in 2005.
- Great Northern Power Development of Denver and Kiewit Mining Group of Omaha have proposed a \$1 billion 500-megawatt coal-fired circulating fluidized bed generating plant near Nelson Creek

west of Circle. The project would be just east of Highway 24 and north of Montana 200 and would go on line in 2009. Direct and in-direct employment is estimated at 1,200 jobs. The project would also include a 60 MW wind generation component.

- The Southern Montana Electric G & T Co-op, created in 2003 by five Montana rural electric co-operatives, has proposed a 250-megawatt coal-fired power plant 8 miles east of Great Falls near Highwood. The \$470 million plant would use about 1.1 million tons of Montana coal annually. The plant would require about 400 workers for construction and 65 permanent workers for operation. The permit application is under review by DEQ.
- The Otter Creek Tracts 1, 2, and 3 coal deposits, with over 533 million tons of estimated super-compliant coal reserves, have been proposed as the site for a 3,000-megawatt coal generation plant by Kennecott, Bechtel, and Wesco.

In addition, other existing Montana coal mines that mine sub-bituminous coal include:

- Decker Coal Company at West Decker (6.9 million tons in 2005),
- Spring Creek Mine at Decker (13.1 million tons in 2005),
- Western Energy Company's Rosebud Mine at Colstrip (13.1 million tons in 2005), and
- Westmoreland Resources' Absaloka Mine at Hardin (6.6 million tons in 2005).

Westmoreland Resources also has a lignite mine at Savage that produced 323,536 tons of coal in 2005.

The Peabody Group's Big Sky Mine at Colstrip closed in December, 2004, and is being reclaimed. No coal has been shipped out of the East Decker Mine since December 2004.

Hard Rock Mining Impact Board:

The Montana Hard Rock Mining Impact Board, created by the Legislature in 1981, exists to provide technical assistance, analysis, and mitigation and mediation services to local governments and hard rock mining developers where potentially adverse public fiscal impacts from large-scale development are identified. This five-member board, appointed by the Governor, establishes administrative policies and implements state law. The Board administers the Hard-Rock Mining Impact Act (HRMI) (90-6-301, MCA) and the companion Property Tax Base Sharing Act (PTBS) (90-1-401, MCA) and provides technical assistance with metal mines license tax distributions. The Board adjudicates disputes between affected entities. The purpose of the HRMI and PTBS acts is to mitigate the local government service, facility and fiscal impacts from new large-scale hard-rock mineral developments in Montana.

Mineral developers and affected local governments prepare and implement impact plans intended to ensure that local government services and facilities are available when and where they are needed as a result of new mineral developments, without imposing additional costs on existing local taxpayers. Developers pay new capital and net operating costs through prepaid property taxes with a subsequent tax credit, grants, or facility impact bonds.

Currently, only the Stillwater Mining Company's Nye Mine in Stillwater County and East Boulder Mine in Sweetgrass County have adopted and approved impact plans. Both mines are platinum and palladium mines.

- Revett Minerals Inc., previously known as Sterling Mining Company, has proposed reopening the Troy Mine, a copper and silver mine ten miles south of Troy. The mine began operating in 1981 but closed in 1993 because of low metals prices, resulting in the loss of 320 jobs in the area.
- Revett has also proposed the \$200 million Rock Creek Mine, located beneath the Cabinet Mountains Wilderness, which would also extract copper and silver ore. If approved, the mine would create 250 jobs.

- Mines Management Inc. has acquired control and ownership of the Montanore Project previously owned by Noranda Inc. Montanore is a proposed underground silver and copper mine located near Libby, Montana. The ore deposit is located in Sanders County but the mine facilities would be located in Lincoln County. Noranda shut down the project in 1991 after driving the Libby Creek adit 14,000 feet.

Hard Rock	Actual FY 2004	Actual FY 2005	Actual FY 2006	Estimated FY 2007	Requested FY 2008	Requested FY 2009
Board Meetings	1	2	6	2	2	2
Conference Calls	4	4	4	4	4	4

Treasure State Endowment Program (TSEP):

TSEP is a state-funded grant program created to help local governments fund infrastructure projects, defined by statute as drinking water systems, wastewater treatment, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, including site acquisition, preparation, or monitoring; and bridges. TSEP was authorized by Montana voters through the passage of Legislative Referendum 110 in June 1992 (90-6-701, MCA).

Construction Projects – Applications Received and Reviewed:

Applications for funding local government public facility construction projects are accepted by the program in even-numbered years preceding the Legislature, since projects and funding must be approved by the Legislature. The program received 57 applications in FY 2006, with half of their review and evaluation occurring in FY 2006 and the remainder in FY 2007. These applicants are competing for funds that will become available during the 2009 biennium. The treasure state endowment fund grows each year, which in turn provides more funds each biennium for award to construction projects. The program estimates that a similar number of applications would be received and reviewed in FY 2008 and 2009 as a result of growth and the additional need for centralized water and wastewater systems, aging infrastructure needing to be replaced, and new federal and state standards and regulations that require that improvements be made.

Construction Projects – Awards:

Construction projects are authorized for funding every other year by the Legislature. Forty projects were awarded matching grants by the 2005 Legislature. Based on the interest earnings received from the treasure state endowment fund in FY 2006, it appears that the total amount of interest earnings that was projected and awarded by the Legislature will, in fact, not be received during the 2007 biennium, and there may not be sufficient funds for all forty projects. The revenue projections provided in the HJR 2 estimated that \$8,578,934 would be earned in FY 2006, when in fact only \$7,541,731 was realized in FY 2006, which is \$1,037,203 less than what was projected. The estimated 35 new projects that would potentially be funded from the 2009 biennium interest earnings assumes that approximately \$18 million would be received during the 2009 biennium.

Active Construction Projects:

Once TSEP funds have been awarded by the Legislature to communities for a construction project, the project is considered "active" until it is "conditionally closed." During this time period, the program staff assists the local government in administering program funds and managing the construction of the project in compliance with state laws and regulations. An active project is conditionally closed when the construction project has been completed and accepted by the local government, and the local government has submitted documentation

describing what was actually accomplished and expended for each funding source involved in the project. Once the project is conditionally closed, the final disbursement of TSEP funds is provided to the local government. The estimate for FY 2007 is based on the 74 active construction projects at the end of FY 2006, less approximately 33 that are likely to be conditionally closed during FY 2007. The estimate for FY 2008 and FY 2009 assumes that 35 new construction projects would be awarded TSEP funds by the 2007 Legislature.

Preliminary Engineering Grants:

In order to submit an application requesting TSEP funding for a construction project, the applicant must include a detailed preliminary engineering report, which documents the problems, evaluates all reasonable alternative solutions, and finally, describes the alternative that the applicant has selected to solve the problems. The 2005 Legislature appropriated \$600,000 to the Department of Commerce for the purpose of providing communities with matching grants for preliminary engineering work. The department awarded 43 grants totaling \$599,985 during the 2007 biennium, and 28 of those studies have been completed as of June 2006. Of the 57 grant applications for construction projects received in FY 2006, 34 of the local governments also received a TSEP grant in the past to help fund their preliminary engineering study. The estimated number of studies that would be funded during the 2009 biennium assumes that \$600,000 would be appropriated and that each of the 40 communities applying would request the maximum amount allowed. Potentially, a few more communities could be awarded grants if some applicants request or use less than \$15,000.

Emergency Grants:

The 2005 Legislature appropriated \$100,000 to the Department of Commerce for the purpose of awarding grants to local governments for emergency public facility projects that cannot wait for legislative approval. No emergency projects were funded during FY 2006. The estimated number of emergency projects to be funded during the 2009 biennium assumes that the Legislature would again appropriate \$100,000 for emergency projects.

TSEP	Actual FY 2004	Actual FY 2005	Actual FY 2006	Estimated FY 2007	Requested FY 2008	Requested FY 2009
Construction Applications Received and Reviewed	47	0	57	0	60	0
Construction Grants Awarded	0	40	0	35	0	37
Active Construction Projects	74	96	74	76	65	60
Preliminary Engineering Grants Awarded	32	0	43	0	40	0
Emergency Grants Awarded	3	1	0	3	3	3

Community Development Block Grant (CDBG) Program:

Active Projects:

Montana has been operating the CDBG Program in cooperation with the U.S. Department of Housing and Urban Development (HUD) since 1982. Since that time, Montana has received over 166 million dollars in CDBG funds for the housing and public facilities categories. Typically, at any one time, the CDBG Program for Housing and Public Facilities is responsible for the administration of over forty public facilities and housing projects that are underway within the State. The majority of the public facilities projects are grants to local governments to undertake needed water and wastewater system improvements. Grants have also been made to Montana local governments to fund senior centers, fire halls, hospitals, and Head Start centers.

Local governments can also use the CDBG program to fund the rehabilitation of substandard homes within a community or to undertake the new construction of housing units for low and moderate income persons, working in conjunction with a non-profit organization that will own and operate the housing project. Housing grants are also made to local governments to provide down payment assistance for housing purchase by low and moderate income families and to demolish vacant, deteriorated buildings.

The program is also responsible for the administration of approximately 15 to 20 planning grants that are awarded annually to local governments to assist them in evaluating public facilities or housing needs, or to prepare community growth policies and capital improvement plans.

Three formal grant competitions are held each year: a spring grant competition for planning grants; a summer grant competition for public facilities; and a fall grant competition for housing projects. CDBG staff is responsible for ensuring that federal and state laws and regulations are complied with during the implementation of local projects. CDBG staff also assists local governments in administering their projects. Active projects are conditionally closed when the project has been completed and accepted by the local government. The project is granted final closeout status after submission of a local government audit which includes the CDBG project funds.

In federal fiscal year (FFY) 2006, the Bush Administration proposed to eliminate the CDBG program. Congress rejected that proposal, but did cut funding 10%. President Bush proposed a 25% cut in CDBG funding for FFY 2007, but it does not appear that Congress will approve a major cut in funding for the program.

Since 2003, MDOC has conducted the ranking of housing and public facility CDBG projects in the calendar year prior to the actual receipt of the FFY allocation that will fund those projects. This allows MDOC to award grants to communities immediately upon receipt of HUD's CDBG allocation for the State. The grants are awarded in order of the ranking scores assigned, based on the amount of funds allocated to the housing and public facilities project categories. This eliminates the lag time between the receipt of the State's CDBG allocation and the award of those funds. This procedure also has the benefit of allowing public facility projects applying for both CDBG and TSEP funding to be reviewed in even-numbered years by both programs concurrently.

Successful applicants under the public facilities grant competition announced in September are able to draw upon funds seven months later in April when CDBG funds are received from HUD. Similarly, successful housing grant applicants announced in February will be able to draw upon funds two months later when the CDBG funds are received from HUD in April.

CDBG	Actual FY 2004	Actual FY 2005	Actual FY 2006	Estimated FY 2007	Requested FY 2008	Requested FY 2009
Applications Reviewed						
Public Facilities	14	11	17	15	17	17
Housing	9	4	8	8	8	8
Planning	33	33	22	25	25	25

Grants Awarded						
Public Facilities	8	7	8	8	8	8
Housing	6	3	4	4	4	4
Planning	14	23	21	20	20	20

Facility Finance Authority:

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The Authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

Mission:

To develop and maintain statewide financing programs which provide for and maintain access to the broadest range of low-cost capital financings as possible for eligible non-profit private and public institutions, which will promote affordable access to and availability of services for the consumer.

Goals and Objectives:

To maintain and improve current financing programs while developing new funding options.

To develop and implement effective financing plans for under served borrowers by pursuing financing options for Critical Access Hospitals and "bank eligibility."

To promote a greater understanding and utilization of the Authority financing programs by participating in, sponsoring and speaking at conferences and disseminating information to clients and new administrators.

To provide resources for the advancement of tax-exempt financing on a national level by serving on committees of national organizations and meeting with congressional representatives.

Facility Finance Authority HB 576 Program Description:

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The Authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

Customers include health care and related facilities, entities serving persons with development and/or mental disabilities, and prerelease/methamphetamine treatment centers.

There has not been any significant program, service, or customer base change since the last session.

HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The Authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2009 biennium.

Authority revenues are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
521135	153,293.65	20.511%
521136	203,296.52	27.202%
521137	77,266.11	10.339%
521190	9,235.00	1.236%
522110	784.46	0.105%
530025	82,001.68	10.972%
531626	(1,423.57)	(0.191%)
531644	1,429.57	0.191%
538006	21,473.46	2.873%
582886	200,000.00	26.761%
Totals:	\$747,356.59	100.00%

Expense Description:

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment. The major cost drivers for the Authority can best be represented in the following table:

	FY 2006	%
FTE	2.00	
Personal Services	162,582.42	31.145%

Operating Expenses	113,399.39	21.723%
Grants	46,040.00	8.820%
Transfers	200,000.00	38.313%
Totals:	\$522,021.81	100.00%

There is little uncertainty in forecasting future costs of major cost drivers, unless the Authority were to become involved in litigation related to the issuance and maintenance of bonds.

For the purposes of this analysis, it is assumed the Authority's ongoing work and customer levels remain constant. Non-typical and one time only expenses, if any, are subtracted from any proposed budgets. Personal services expenditures fund 2.00 FTE and Board Member Per Diem.

Working Capital Discussion:

The 60 day Working Capital Calculation is not reasonably applicable to the Authority because national bond rating agencies, national bond insurers, and institutional investors expect the Authority to reserve two years operating capital (approximately \$664,678) to assure that the Authority can financially operate between legislative sessions.

Fund Equity and Reserved Fund Balance:

The Total Fund Equity requirement for the 2009 biennium (\$6,000,000) is derived from the following Authority Program Reserve mandates:

- A. Biennium Working Capital Reserve; \$664,678
- B. Capital Reserve Account (Loan Loss Reserve); \$4,723,031
- C. Facility Direct Loan Program Reserve; \$1,033,100

Rate Explanation:

The Facilities Finance Authority is funded by an enterprise fund; accounting entities 06012 and 06015; and Authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

Housing Division:

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The division includes the Housing and Urban Development (HUD) HOME Investment Partnerships program, the HUD Tenant Based and Project Based Section 8 Housing programs, and the Board of Housing and its programs.

Housing Division responsibilities are mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 91, and 92; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor's Executive Order 27-81.

Mission:

To provide mechanisms that enable Montanans to own or rent decent, safe, and sanitary housing that is within their financial capability.

Goals and Objectives:

In order to fulfill its mission the Housing Division is committed to achieving the following goals and objectives:

- Expand coordination of housing activities within the Housing Division, and with other housing providers, both private and governmental, to ensure maximum possible high quality development and maintenance of housing stock within the state, while minimizing use of resources and duplication of services.
- Continue and expand involvement of Housing Division personnel in the Housing Coordinating Team, an interagency group meeting to discuss issues related to housing and coordination of programs. Create standardized application documents for grant, loan and tax credit funds where possible. Combine applications workshops and use a "team" approach to setting up application workshops and required public hearings.
- Provide exemplary customer service by resolving questions for our customers rather than passing them along to another person or agency if at all possible.

Board of Housing:

The Montana Housing Act of 1975 created the Montana Board of Housing. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting. Substantially all of the funds for the Board's operations and programs are provided by the private sector through the sale of tax-exempt bonds. The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board Housing Programs. These programs include the Regular Bond Homeownership Program, Special Set-Aside Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed. Under the Montana Housing Act of 1975, the board does not receive any general fund, and is completely self-supporting.

Board of Housing Goals & Objectives:

- Continue automation of functions to improve operations. Continue to look at new ways of operating to improve efficiency and timeliness.
- Manage the assets of the Board in the most effective manner to enhance the ability to provide housing finance for lower income Montanans. Use any program earnings to recycle into new mortgages or call bonds.
- Continuously review programs to determine if they are meeting the needs of the population they are intended to serve. Continue to change program requirements based on current conditions.
- Increase education and outreach to the citizens of Montana and the Board's customers and servicers through public appearances, workshops, print media, and other means as appropriate.
- Provide training to lenders and realtors, as well as work with non-profits to provide rental counseling, homebuyer education, foreclosure prevention and post purchase education.
- Develop and implement creative methods of financing multifamily rental housing.
- Review opportunities for preservation of federally financed housing, and work with HUD on restructuring of multifamily properties when appropriate.
- Find ways aimed at lowering the cost of housing including The Plan Book and The Governor's House Program.

- Develop programs that meet the needs of populations that are not currently being served.
- Promote the use of the funds within the Housing Revolving Loan Account (HRLA).
- Use Internet web page to provide updated information to persons interested in Board activities and programs.

Housing Assistance Bureau:

The Housing Assistance Bureau consists of three programs; the U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships (HOME) program; the HUD Project Based Section 8 Housing Contract Administration (PBS8) program; and the HUD Tenant Based Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs Contract Administration (TBS8).

HOME Investment Partnerships Program (HOME):

HOME provides grant funds to eligible local government entities and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual homes or rental units, tenant based rental assistance, and other eligible activities. Grants are awarded through a competitive process once each year. HOME also includes the president's American Dream Downpayment Initiative (ADDI) homeownership program. HOME staff also coordinates completion of the Montana Consolidated Plan, a five year planning document, with annual updates, required by the HUD in order to receive federal funds for many state programs.

The HOME program is funded in HB 2 by an annual categorical federal grant from HUD (100% federal funds). Beginning FY2006, organizations prequalified by the Montana HOME program can access funds for homebuyer assistance and homeowner rehabilitation on a noncompetitive basis (referred to as the Single-Family Pilot Program). Other eligible activities are distributed using a competitive process to successful local governments and Community Housing Development Organizations (CHDOs) with an allowed amount being held back at the state level to administer the program.

HOME Program Goals & Objectives / Performance Indicators:

- Continue restructuring and streamlining HOME Program grant application and administration policies and procedures to expand program accessibility for Montana's cities, towns, counties, and Community Housing Development Organizations (CHDOs).
- Continuously improve HOME project screening, technical assistance efforts, and project monitoring to ensure that high quality, long lasting affordable housing investments are made in Montana.
- Continue to provide technical assistance to rural portions of the state by HOME Program personnel and through technical assistance contracts.
- Continue cooperation with other affordable housing programs in the state to ensure the efficient use of scarce resources. Other affordable housing programs include the programs of the Montana Board of Housing, USDA-Rural Development, the Montana Homeownership Network and Montana Home Choice Coalition.

Consolidated Plan:

Continue to simplify and streamline annual updates facilitating continued federal participation and enhancing usability of the plan for the average citizen.

HOME Program Performance Indicators:

Indicator	Actual FY2005	Actual FY2006*	Estimated FY2007	Requested FY2008	Requested FY2009
Applications Reviewed (\$)					
Single-Family Pilot Program	-	1,987,454	2,129,194	2,193,070	2,258,862
Homebuyer Assistance	2,290,100	466,115	553,590	570,198	587,304
Homeowner Rehabilitation	275,500	-	106,460	109,654	112,943
New Construction - Rental	1,326,878	1,000,000	1,469,144	1,513,218	1,558,616
New Construction - Single Family	-	320,126	511,007	526,337	542,127
Acquisition Rehabilitation - Rental	2,185,990	-	1,192,349	1,228,120	1,264,963
Tenant Based Rental Assistance	366,060	-	170,336	175,446	180,709
Totals:	\$ 6,444,528	\$ 3,773,695	\$ 6,132,080	\$ 6,316,043	\$ 6,505,524
Grants Awarded (\$)					
Single-Family Pilot Program	-	1,987,454	2,129,194	2,193,070	2,258,862
Homebuyer Assistance	1,547,323	466,115	85,168	87,722	90,355
Homeowner Rehabilitation	183,667	-	-	-	-
New Construction - Rental	500,000	717,296	851,678	877,228	903,545
New Construction - Single Family	-	320,126	681,341	701,783	722,836
Acquisition Rehabilitation - Rental	1,397,320	-	383,255	394,753	406,595
Tenant Based Rental Assistance	297,552	-	127,752	131,584	135,531
Totals:	\$ 3,925,862	\$ 3,490,991	\$ 4,258,388	\$ 4,386,140	\$ 4,517,724

*As of July 2006. An additional \$483,917 in remaining CHDO set-aside is available in the second 2006 application round (deadline: August 1).

HUD Section 8 Housing:

Project Based Section 8 Contract Administration (PBS8):

The PBS8 Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Program renews rent contracts to project owners as they expire. Contract Managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners. The program provides 4,268 units of rental housing in 100 projects, for low income and elderly families in the state.

Tenant Based Section 8 Contract Administration (TBS8):

TBS8 provides over 4,100 rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

Both Section 8 Housing programs are funded by two enterprise funds with revenues derived under HUD performance based Annual Contribution Contracts.

Section 8 Housing Goals & Objectives:

- Continue to provide and improve high quality Section 8 Housing Program services using contracted local field agencies to provide local contact for landlords and tenants enrolled in MDOC Section 8 Housing programs.
- Expand comprehensive centralized field agent training sessions to ensure field agent competency in all matters related to Section 8 Programs, and address problems associated with service delivery. Provide specialized training in areas identified as being high need for field agents and staff.
- Expand field review of local field agent operations to better monitor performance and to provide additional on-site training for field agents related to programmatic requirements, including inspections of rental units occupied by Section 8 tenants.
- Continue to support the Family Self Sufficiency Program to make FSS services available to clients on a full statewide basis, enabling more low-income clients to become independent of government assistance.
- Continue and expand contract administration of Section 8 project based contracts currently administered by HUD.
- Expand the provision of housing opportunities for low income Montanans by applying for additional assistance as it becomes available from federal sources.
- Expand the availability of low income Montanans to enter homeownership using the special provisions of the Housing Choice Voucher Homeownership program.

Board of Housing HB 576 Program Description:

The Montana Housing Act of 1975 created the Montana Board of Housing (Board). The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. The powers of the Board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board Housing Programs. These programs include the Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

Customers include households that qualify for the Board's programs to either rent or buy their own home. The Board partners with brokers, realtors, banks, real estate lenders, builders, developers, contractors, non-profit housing providers and other governmental entities. Working together with its partners, the Board provides programs that allow a household to rent an apartment or house at an affordable rent. It allows a qualifying household to obtain a lower rate mortgage that will allow them to be able to afford a home that meets their household needs. It also allows qualifying senior households the opportunity to access the equity in their homes to help them afford to stay in their house through a reverse mortgage.

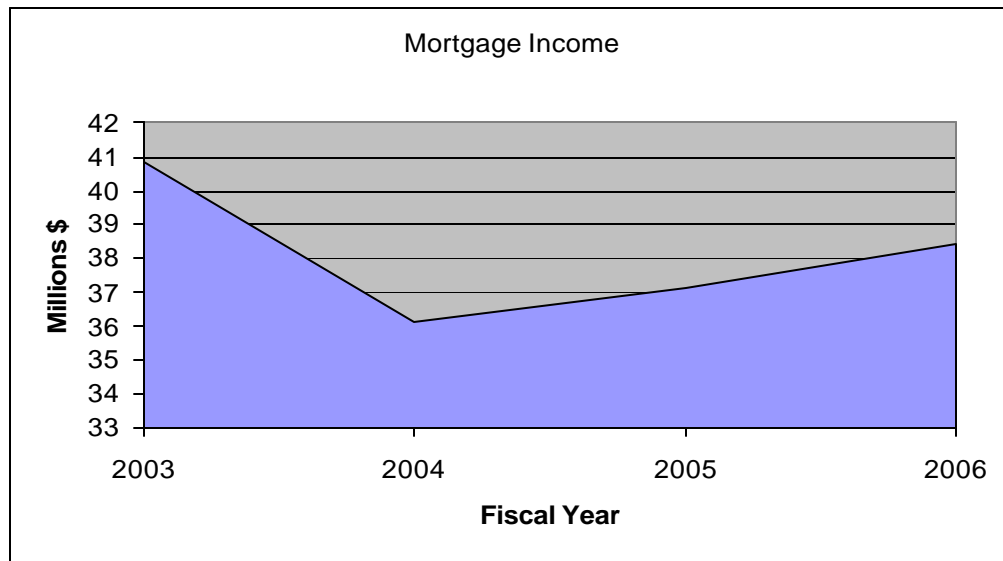
There has not been any significant program, service, or customer base change since the last session. The Board of Housing is primarily mandated in Title 2, Chapter 15; and Title 90, Chapter 1, and Chapter 6, MCA.

Overview of Board Financial Operations:

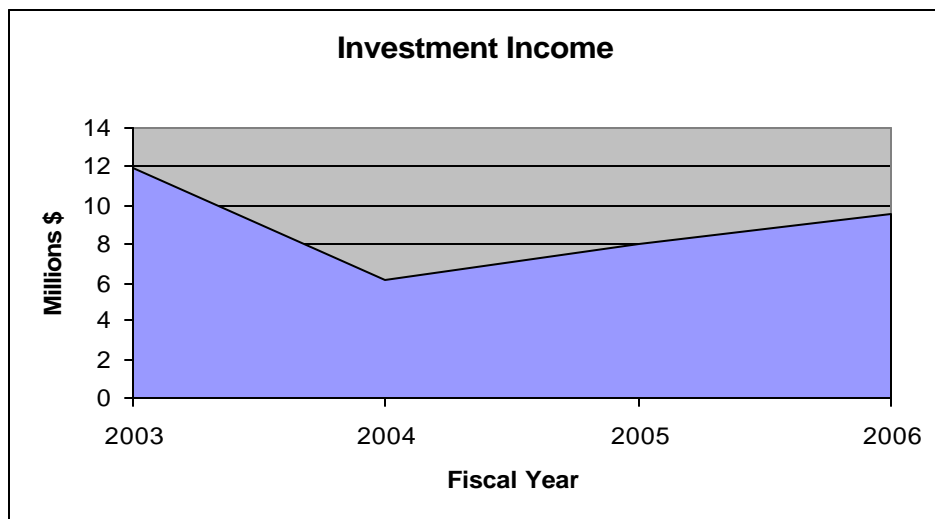
Under the Montana Housing Act of 1975, the Board does not receive any general fund money. The Board is completely self-supporting. Substantially all of the funds for the Board's programs and operations are provided by the private sector through the sale of tax-exempt bonds. The Board of Housing is funded by four enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed.

Revenue Description: Mortgage & Investment Income

About 98% of the Board's income is from Mortgage and Investment income. Mortgage Income is the interest people pay on Board loans used to purchase their homes and is limited by the Internal Revenue Service as a condition of using tax-free bonds as a financing source. Mortgage income is also controlled by the national financial markets which set both mortgage rates and bond financing rates. For example, Board Mortgage income (below) followed financial markets, decreasing until 2004 because national interest rates decreased. In response, people refinanced higher rate Board mortgages with lower rate mortgages and new Board mortgages also had lower rates. This decreased Mortgage Income. Starting in 2005, national interest rates began increasing and Board mortgage income increased.



Investment income comes from interest earned on investing reserves the Board is required to hold and bond and program moneys not yet used to buy mortgages. Investment Income (below) followed the same pattern, decreasing as interest rates decreased, and then increasing as interest rates increased.



Both future Mortgage Income and Investment Income for the Board depend on the interest rate environment which is determined by the national financial markets.

Other Income:

The Board charges the Board of Investments for managing its mortgage loans and for loan cancellations, extensions, or for reviewing certain loan applications.

Board of Housing revenues (accounting entities 06030, 06031, 06078, and 06079) are primarily recorded using the following SABHRS revenue codes:

	FY 2006	%
512033	\$ 519.11	0.001%
522017	\$ 24.00	0.000%
525130	\$ 31,780.00	0.069%
526062	\$ 283,794.80	0.617%
530014*	\$ (2,958,274.74)	-6.433%
530025	\$ 34,960.27	0.076%
530223	\$ (10,299.21)	-0.022%
531626	\$ (607.04)	-0.001%
531644	\$ 609.58	0.001%
538002	\$ (40,000.28)	-0.087%
538025	\$ 5,557.70	0.012%
538040	\$ (3,144.10)	-0.007%
538041	\$ 38,556,850.58	83.845%
538042	\$ 9,583,642.56	20.841%
538046	\$ 4,840.94	0.011%
554040	\$ 65,000.00	0.141%
584001	\$ 6,475.00	0.014%
584010	\$ 975.00	0.002%
593410	\$ 186,332.38	0.405%
599001	\$ 236,603.80	0.515%
Totals:	\$ 45,985,640.35	100.000%

* Investment Income includes Government Accounting Standards Board (GASB) market value adjustment. GASB 31 requires that long-term investments be valued at market and any changes since the previous year be added or subtracted from Investment Income. Since no actual gain or loss occurs, this adjustment artificially affects the Investment Income amount presented. For example, during 1998, the first year that GASB 31 was implemented, the Board recorded an unrealized gain of approximately \$2.8 million. In FY2006 the amount was unrealized loss of \$2.9 million. In any one year the difference depends on the market. If investments are sold on the valuation date we would have a realized gain or loss, however the Board holds long-term investments until maturity. At maturity, the investment pays off and there is no market gain or loss.

Rate Explanation:

Income Detail by Program:

The Board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on our loan programs. The Board draws funds for its budget from the amounts available within the Indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the Indenture and is allocated among the various Indentures. Any income the Board earns is used to fund special programs that meet the

needs of Montana families that are not being met by our regular programs. These funds are pledged to the bondholders.

Homeownership Charges:

According to state statute and, in some cases, the Internal Revenue Code, the Board is allowed to earn the amounts that are presented on the "Report on Internal Service and Enterprise Funds". The Board earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds. The Board is allowed to earn 1 1/2% on Pre 1980 Single Family Programs and 1 1/8% on the Post 1980 Single Family Programs.

Financial institutions used to originate Single Family loans for the Board may charge two points, which they keep or originate loans with no points, at a slightly higher rate and have the loans purchased at 102%. Approximately 1% of the loans have 2 points charged. According to tax law, origination points must be included in the amount that the Board can earn. Operating expenses and servicing fees must be paid from the 1 1/8% that the Board is allowed to earn. Servicing fees are .375% of the mortgage principal balance. The Board does not always receive the full 1 1/8% or 1 1/2% spread. The spreads for the last several bond issues were as follows:

* 1996A	- 1.125%
* 1997A1	- 1.39063%
* 1997A2	- 1.08842%
* 1998A	- 1.10078%
* 1998B	- 1.04678%
* 1999A	- 1.11985%
* 2000A	- 1.10302%
* 2000B	- 1.11709%
* 2001A	- 1.11898%
* 2002A	- 1.12251%
* 2002B	- 1.09666%
* 2003A1	- 1.21126%
* 2003A2	- .07883%
* 2003B1	- 1.45392%
* 2003B2	- .51062%
* 2003C	- .83833%
* 2004A	- .82319%
* 2004B	- .49576%
* 2004C	- 1.01778%
* 2005A	- .89501%
* 2005RA	- 1.0336%
* 2005B	- .81353%
* 2006A	- .8008%

Operating expenses and servicer fees further reduce the amount of these earnings. The 1 1/8% or 1 1/2% that the Board can earn is based on certain assumptions at the time the bond issue is structured. One of the assumptions is that the loans will prepay at 100% of the historical FHA prepayment rate. If the loans actually prepay faster, the Board will not earn the initial spread that was calculated. The Board only earns this spread if the loans are held for the amount of time that is originally estimated. If the loans prepay early, the money is invested and then is used to redeem bonds. When the mortgages pay off, the Board has lost the ability to earn the spread between the mortgage yield and bond yield. Historically, prepayments on the majority of the loans have been over 100%, and we expect this trend to continue.

The Board also charges a cancellation fee of 1/2 of 1% of the loan amount reserved. Approximately 5% of loans reserved are canceled. This amount is included in the spread that the Board can earn. These fees are capitalized and are amortized as income over the life of the

loans, as required by generally accepted accounting principles. Extension fees and late fees are also, occasionally, charged. The majority of these fees are capitalized and amortized over the life of the loans. The extension fees are 1/4 of 1% of the loan amount and the late fees are 1/2 of 1% of the loan amount. The amortization of these fees results in an average of approximately \$250,000 of income per year. These fees are deposited with the trustees and are used to originate new mortgages.

Multifamily Charges:

Multifamily Programs can earn 1 1/2% spread between the mortgage yield and the bond yield. On the last several issues, the Board did not receive the full 1 1/2% spread. The spreads for the last three bond issues are as follows:

*	1996A	- .826%
*	1998A	- .28156572%
*	1999A	- 1.013963%

(Servicing fees and operating expenses further reduce the amount of this spread.)

Low Income Housing Tax Credit Charges:

The Board receives approximately \$2.1 million dollars of tax credit allocation, annually. The Board charges 4 1/2% of the amount of tax credit reserved. In the next biennium, reservation fee income is estimated to be approximately \$94,500 per year. The Board is also required to monitor the projects that receive tax credits to determine if the projects are in compliance with tax credit regulations. The Board charges \$25 per unit for compliance fees. The Board has approximately 4,500 units. Approximately \$112,500, annually, will be received during the biennium. Tax credit fees are charged to cover the operating expenses of the program.

Housing Revolving Loan Account Charges:

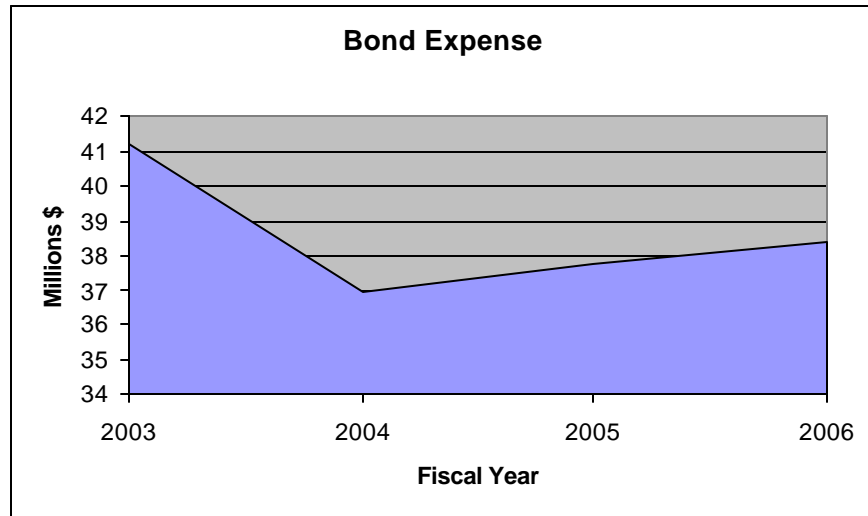
The 1999 Legislature established this fund to provide loans to projects providing affordable housing in Montana. Although the fund was established in 1999 it was not funded. The 2001 legislature added funding through a transfer of Section 8 reserve funds and an allocation of Temporary Assistance to Needy Families (TANF). The TANF funding is currently used to finance down payment and closing cost loans for homebuyers. The other funding is available for other types of housing loans that will typically need that last small piece of financing to make them feasible. The interest that will be charged on HRLA loan will range from 2% - 6%.

Reverse Annuity Mortgage Loans (RAM) Charges:

Under the RAM program, elderly homeowners can receive monthly payments, for 10 years, to assist them with their living expenses. The loans accrue interest at 5%. The principal and interest is not due until the borrower dies or sells their home. It is difficult to determine how much of the interest and principal will actually be received on these loans or when it will be received. These loans are not guaranteed or insured.

Expenses Description: Bond Debt, Loan Servicing and Operations

The Board issues (sells) bonds each year to purchase new mortgages. Once the bonds are sold, the Board must repay the bondholders by making interest and principal payments. The Board is required to use Mortgage and Investment Income to pay bondholders, buy mortgages or pay operating costs. Bond Debt payments are the Board's greatest expense, 88 % of total expenses. Bond Interest rates vary (below) and respond to the interest rate environment set by the national financial markets. As with the previous section, Board rates move with the market. When market rates increase, expenses for bond debt also increase.



The remaining 12 % of expenses are for Loan Servicing and Operations. As shown in the following table, greater than half of Servicing and Operations expenses pay for professional services to banks, mortgage companies and other professionals for issuing bonds, selling mortgages, collecting the monthly mortgage payments, legal services and paying bondholders. The remaining expenses pay for the Board's staff* and staff operations including purchasing and recording mortgage loans, recording repayments and prepayments, investing funds, issuing and redeeming bonds, operating all loan programs and bookkeeping for over 11,000 mortgages, 300 investment accounts, and 31 bond series.

	FY 2006	%
FTE	20.50	
Personal Services	\$ 978,777.38	2.226%
Operating Expenses	\$ 4,155,333.81	9.452%
Grants	\$ 247,404.54	0.563%
Debt Service	\$ 38,582,778.33	87.759%
Total:	\$ 43,964,294.06	100.000%

*The Board currently operates with a staff of 20.50 people in 20.50 Full Time Equivalent (FTE) positions. Fiscal Year (FY) 2006 Servicing and Operations expenses are for SABHRS Funds 06030, 06031, 06078, and 06079.

Working Capital Discussion:

Collection Of Mortgage Payments & Purchase Of Loans:

Each month the Board receives funds from the financial institutions that service the Board's Single Family and Multifamily loans. The funds include the amount of principal, interest, less servicing fees (.375%, .125% and .10% of the principal balance) that are due on the Board's loans. The Board's trustees collect the money. Twice monthly, the Board purchases loans from new bond proceeds, prepayments or other revenues.

The Board receives tax credit reservations fees when the tax credits are approved. These fees are deposited with the state treasurer and are used to cover expenses of the program. Reservations fees on the Single Family and Multifamily Programs are deposited with the trustees

when the approved loans are reserved. They are deposited in the program acquisition account and are used to originate new mortgages.

Payment of Bond Debt:

Principal and interest, on the Multifamily and Single Family Bond issues, is due on each February 1, June 1, August 1, and December 1. Scheduled Debt payments for 2007 are \$50,624,869; 2008 are \$52,049,419; and 2009 are \$52,819,204.

Investments:

The deposit of the initial bond proceeds, used for purchasing loans, is normally invested in a fixed-rate guaranteed investment contract. All debt service reserve funds and mortgage reserve funds that must be held as security for the bondholders are invested in long-term securities, repurchase agreements or guaranteed investment contracts. Under the Multifamily Program, the funds are invested to the next debt service date or to a loan purchase date.

Other Mortgage Purchases:

The Board purchases Reverse Annuity Mortgages (RAM). The RAM loans are not repaid until the borrower dies or sells their home. These amounts are assets of the Board and the interest is accrued monthly, but we may not receive the principal and interest repayments for many years.

The Board also purchases out of the Housing Revolving Loan Program. These loans can be due on sale or amortizing. These amounts are assets of the Board and the interest is accrued monthly.

Fund Equity and Reserved Fund Balance:

Net Assets/Restricted Net Assets:

As stated in the Board's financial statements, Note 1, Fund Accounting: Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following are restrictions on the Restricted Net Assets: Special trust funds and accounts within the indenture are pledged as collateral for the bonds under the individual program indentures; Reserve requirements on cash and investments; Mortgage loans receivable are also pledged as security for holders of the bonds; Certain indentures require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

The Trust Indentures entered into by the Board requires all mortgages, and all moneys and investments within the indentures are legally restricted to uses provided for in the indentures and fund balance associated with the indentures is legally required to be reserved for those uses.

In addition to the legal requirements mentioned above, the Board commits funds to various projects and programs throughout the year. The Board has set aside over \$200 million of first mortgage funds for special programs. In FY 2006, the Board originated approximately \$ 28.5 million of loans under this program to households with an average income of \$ 28,200, which is below 60% of the median income of the state. As of the end of FY 2006, the Board had \$21,329,479 in outstanding Recycled Mortgage Program commitments.

The Board's budgeted monies (those projected to be needed for the fiscal year's operations) are drawn down from the indentures during the fiscal year. These funds are legally pledged to the trust indentures from which they were drawn and any associated fund balance is reserved for the program from which the budgeted funds were withdrawn.

Management Objectives Regarding Fund Balance:

The major component of the Board's Fund Balance (Retained Earnings) is its single-family program. The Board has been recycling repayments and prepayments of mortgages for several years. The Board has committed these funds to special programs, at rates that are in many cases below the average coupon on the bonds. The average income on the special programs is less than \$27,000, whereas the average income on the Board's regular bond programs is about \$38,000. The Board intends to continue these special programs as they serve Montana citizens the Board would not otherwise be able to serve.

Net income over and above bond debt service, operating costs, and servicing fees, is used to write down the rates on special programs or to fund programs such as the RAM Program for elderly. These programs cannot be funded from direct bond proceeds, as there is no repayment guarantee. In the Multifamily area, the Board intends to continue to leverage its multifamily funds into new multifamily loans through the revolving pool so that loans can be completed in a timely and efficient manner.

The Board is reviewed at the time of each bond issue by two rating agencies: Standard & Poor's, and Moody's Investor Services. In order to meet the cash flow tests, the Board must have sufficient assets, earnings, and liquidity, to meet all bond interest and principal expenses, as well as pay operating expenses. The Board just received an Aa1 from Moody's and an AA+ from Standard & Poor's on its largest indenture. The Board's rating reflects the rates the Board gets on its bonds, which is reflected in the mortgage rates passed on to first time home buyers in Montana.

Rate Explanation:

The Board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on our loan programs. The Board draws funds for its budget from the amounts available within the Indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the Indenture and is allocated among the various Indentures. Any income the Board earns is used to fund special programs that meet the needs of Montana families that are not being met by our regular programs. These funds are pledged to the bondholders.

Section 8 Housing HB 576 Program Description:

Project Based Section 8 Contract Administration (PBS8):

The PBS8 Program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The Project Based Program renews rent contracts to project owners as they expire. Contract Managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners. The program provides 4,268 units of rental housing in 101 projects, for low income and elderly families in the state.

The Project Based Section 8 program is funded by enterprise accounting entity 06074 with revenues derived from a performance based Annual Contribution Contract with HUD. There are no direct appropriations provided in HB 2; the Project Based Section 8 program is completely self-supporting.

Tenant Based Section 8 Contract Administration (TBS8):

TBS8 provides over 4,100 rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

The Tenant Based Section 8 program is funded by enterprise accounting entity 06075 with revenues derived from a performance based Annual Contribution Contract with HUD. There are no direct appropriations provided in HB 2; the Tenant Based Section 8 program is completely self-supporting.

The Section 8 Housing programs are primarily mandated in 24 CFR Parts 5, 8, 35, 792, 813, 880, 882, 883, 887, 888, 891, 903, 982, 984 and 985 of the Code of Federal Regulations Section 8 Housing authorization and the Governor's Executive Order 27-81 Authorization of Section 8 Housing.

Customers include the 8,421 Montana families that hold a Section 8 Voucher or live in a Section 8 Project Based unit. The majority of these families include the disabled or the elderly. Customers also include the 2,500 landlords that accept vouchers or own project based apartments.

There has not been any significant program, service, or customer base change since the last session; however the federal government has proposed maintaining the levels of funding for the Housing Choice Vouchers program with only a minor increase effectively allowing the program to serve fewer families with rising costs for rent and utilities.

Section 8 Housing HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

Both Section 8 Housing programs are funded entirely by enterprise funds; Project Based Section 8 with accounting entity 06074; and Tenant Based Section 8 with accounting entity 06075. There are no direct appropriations provided in HB 2. Both funds revenues are derived from performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

Project Based Section 8 Housing revenues (accounting entity 06074) are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
512033	\$ 227.54	0.001%
530025	\$ 42,532.41	0.246%
531626	\$ (738.52)	-0.004%
531644	\$ 741.49	0.004%
538006	\$ 7,333.37	0.042%
594109	\$ 847,433.00	4.896%
594111	\$ 16,410,473.31	94.814%
Total:	\$ 17,308,002.60	100.000%

Tenant Based Section 8 Housing revenues (accounting entity 06075) are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
512033	\$ 23.20	0.000%
530025	\$ 134,176.23	0.723%
531626	\$ (2,329.80)	-0.013%
531644	\$ 2,339.16	0.013%
538006	\$ 5,732.71	0.031%
594110	\$ 65,478.61	0.353%
594112	\$ 16,479,003.77	88.785%
594113	\$ 61,212.34	0.330%
594116	\$ 125,008.72	0.674%
594117	\$ 124,228.56	0.669%
594118	\$ 139,482.64	0.751%
594119	\$ 242,412.20	1.306%
594120	\$ 57,828.46	0.312%
594121	\$ 106,465.64	0.574%
594122	\$ 87,515.06	0.472%
594124	\$ 105,398.70	0.568%
594125	\$ 209,069.28	1.126%
594126	\$ 270,005.20	1.455%
594127	\$ 92,136.68	0.496%
594128	\$ 255,468.80	1.376%
Total:	\$ 18,560,656.16	100.000%

Expense Description:

Major cost drivers for the Project Based Section 8 program, accounting entity 06074, can best be represented in the following table:

	FY 2006	%
FTE	7.00	
Personal Services	\$ 322,422.08	1.905%
Operating Expenses	\$ 189,138.06	1.118%
Benefits and Claims	\$ 16,410,483.31	96.977%
Total:	\$ 16,922,043.45	100.000%

Major cost drivers for the Tenant Based Section 8 program, accounting entity 06075, can best be represented in the following table:

	FY 2006	%
FTE	12.00	
Personal Services	\$ 500,762.17	2.748%
Operating Expenses	\$ 339,918.56	1.865%
Grants	\$ 1,394,854.62	7.654%
Benefits and Claims	\$ 15,988,955.09	87.733%
Total:	\$ 18,224,490.44	100.000%

Working Capital Discussion:

Revenues are generated in the Project Based Section 8 Contract Administration under a HUD performance based contract using 17 Incentive Based Performance Standards which are calculated by HUD monthly, quarterly, and annually. Revenues generated are required to be used for contract administration. Rental Assistance payments are made based on Contracts negotiated by the PBS8 staff and tenant income data, and are paid and reimbursed monthly by HUD, based on actual program benefits paid to owners.

Revenues for the TBS8 are generated at the rate of \$45.79 per unit for each rental unit under lease each month, effective January 1, 2006. Revenues are used to pay for contract administration of the program. HUD regulations do not allow the PHA to earn new reserve balances after 2003, and old reserve balances are committed to paying program administration costs only and HUD may require their use to pay rental subsidies in the future. Retained earnings are used to supplement interest earnings and older operating reserves in paying for contract administration costs that exceed current revenues. Rental subsidies are paid and reimbursed by HUD. The PHA is not allowed to retain any funds for other than the payment of rents under the program.

Fund Equity and Reserved Fund Balance:

Fund equity remaining in the accounts is reserved for use on the Section 8 Housing programs. This was enacted in HUD PIH Notices 2003-23 and 2004-07, and is also found in 24 CFR 982.152(b). Also see working capital discussion above.

Rate Explanation:

Both funds revenues are derived from competitively awarded performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Section 8 programs workload and customer level will remain constant.

The administration side of the program does not currently make enough from HUD to fully fund administrative operations, so retained earnings, and interest on them are used to make up the difference between needed revenues and administration expenses for the program. It is anticipated that the retained earnings will continue to fund the program indefinitely, unless there are more negative changes upcoming from HUD. The retained earnings are limited to use for operation of the program by federal code.

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. We are entering the seventh year, and

expect HUD to extend our contract in future years, as we have obtained an outstanding review score in most years we have administered the program. Administrative costs are paid as a fixed percent of the HUD fair market rent, currently 2%, with a provision for another 1% awarded for superior performance, or 1% removed for failure to perform. The amounts received are based in 17 different Incentive Based Performance Standards, each of which is evaluated by HUD. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD, based on actual contracts negotiated between the department and the 107 individual owners of the projects, set up on a procedure dictated by HUD.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Project Based Section 8 program is authorized 7.00 FTE and the Tenant Based Section 8 program is authorized 12.00 FTE; for a total 19.00 FTE.

Board of Investments:

Article VIII, Section 13 of the Montana Constitution created the Unified Investment Program, which includes all state agency funds. The Board, by law, invests the Unified Investment Program. Local governments may also invest with Board. The Board manages seven investment pools, which operate like mutual funds.

1. Retirement Funds Bond Pool
2. Trust Funds Bond Pool
3. Short Term Investment Pool
4. Montana Domestic Stock Pool
5. Montana International Equity Pool
6. Montana Private Equity Pool
7. Montana Real Estate Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The In-State Investment Program consists of Montana residential mortgages purchased by the states two large pension funds and commercial loans funded by the Coal Tax Trust. The Board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to the Board's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the Board administers a number of different loan programs that can be specifically tailored to meet an individual business's or local government's needs.

The Board of Investments is funded with both enterprise and internal service type proprietary funds, and no direct appropriations are provided in HB 2.

Board of Investment responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Mission:

To provide prudent investment management of state and local government funds; work with financial institutions, state agencies, and local governments to enhance and expand Montana's economy and assist new and expanding Montana businesses; and to lend low-interest funds to eligible governments for a variety of projects.

To meet these challenges, the Board of Investments is committed to employing proven, long-term investment strategies and finding creative solutions to financial issues facing government entities and new and expanding businesses in the state.

Board of Investments HB 576 Program Description:

Unified Investment Program:

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 17-6-201, created the Board of Investments, and gave the Board sole authority to invest state funds. The Board also invests local government funds at their discretion. The Board currently manages an investment portfolio with a market value of approximately \$11.2 billion. The Board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the Board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the Board annually. The Board consists of nine members appointed by the Governor.

In-State Investments:

Section 17-6-305, MCA authorizes the Board to invest up to 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. This "In-State Investment Program" makes business loans from the Trust in participation with financial institutions. The Board lends Trust Fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The Board also lends low-interest monies funded from the Trust to value-added type businesses creating jobs. Throughout Fiscal 2006, the Board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program:

The Board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

The Board of Investments is funded by two proprietary fund types. Accounting entity 06014, an enterprise fund, funds the Intercap or Bond Programs. Accounting entity 06527, an internal service fund, funds the Investment Programs.

Board of Investment responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Board of Investments customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow in size and complexity.

HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

Nearly all Bond Program revenues (accounting entity 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the Boards contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (accounting entity 06527, an internal service fund) are generated from charges to each account that the Board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

The Board of Investments does not receive any direct appropriations.

FY 2006 base year funding, by fund type for the Investment Program, accounting entity 06527 is as follows:

	FY 2006	%
General Fund	\$ 77,974.76	2.418%
State Special	\$ 41,323.21	1.282%
Federal Special	\$ 2,497.57	0.077%
Proprietary	\$ 157,248.67	4.877%
Expendable Trust	\$ 79,154.10	2.455%
Non Expendable Trust	\$ 2,776,507.71	86.107%
Local Government	\$ 64,855.06	2.011%
University	\$ 21,976.06	0.682%
Debt Service	\$ 2,952.83	0.092%
Misc Reimbursement	\$ -	0.000%
Total:	\$ 3,224,489.97	100.000%

Customer expenditure codes are not available because many customers are outside of state government and therefore do not record their financial activity on SABHRS.

Bond Program revenues (accounting entity 06014) are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
525130	\$ 4,671.18	0.169%
527054	\$ 1,011.99	0.037%
530008	\$ 395,384.01	14.289%
530010	\$ 355,313.21	12.840%
530014	\$ (8,574.31)	-0.310%
530023	\$ (1,022.30)	-0.037%
530025	\$ 7,281.04	0.263%
530029	\$ (111,459.61)	-4.028%
538043	\$ 2,106,750.73	76.135%
538044	\$ 17,784.57	0.643%
Total:	\$ 2,767,140.51	100.000%

Investment Program revenues (accounting entity 06527) are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
521055	\$ 3,224,489.97	100.000%

Expense Description:

The major cost drivers within the Board of Investments are personal services, operating expenses and expenditures related to the periodic replacement of computer equipment. Additionally, over \$3.068 million was disbursed from accounting entity 06014 in FY 2006 via a statutory appropriation for debt service requirements related to the state's bonding activity.

FY 2006 base year expenditures, for accounting entity 06014 are as follows:

	FY 2006	%
FTE	4.00	
Personal Services	\$ 249,636.53	7.256%
Operating Expenses	\$ 121,926.83	3.544%
Debt Service	\$ 3,068,931.82	89.200%
Total:	\$ 3,440,495.18	100.000%

FY 2006 base year expenditures, for accounting entity 06527 are as follows:

	FY 2006	%
FTE	30.00	
Personal Services	\$ 1,884,259.40	54.018%
Operating Expenses	\$ 1,603,958.56	45.982%
Total:	\$ 3,488,217.96	100.000%

Please note that accounting entity 06527 also pays for 1.00 FTE in the Treasurers' Office in the Department of Administration through a direct appropriation in HB 2.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (approximately 30.00 funded from accounting entity 06527, and 4.00 funded from accounting entity 06014) and personal services expenditures include Board Member Per Diem.

Working Capital Discussion:

Revenues for accounting entity 06014 are typically received on an annual basis, so a 270 day fund balance is required to provide adequate funding for the Bond Program between draws.

Revenues for accounting entity 06527 are assessed on a monthly basis; since collections lag by at least one month the Board must maintain a nominal 60 day working capital reserve to meet ongoing operational expenses.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the Department projects a fiscal year end 2009 ending working capital reserve of approximately 60 days for accounting entity 06527. All interest earnings on the working capital reserve are distributed to the state general fund.

Rate Explanation:

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This process has worked very well since the passage of HB 576 and this methodology is continued in the 2009 biennium because it provides an easy comparison with historical financial activity.

Significant Present Law:

The Board of Investments accounting entity 06527 has two decision packages which effect portfolio assessments.

Investment Research and Investment Tools:

Given the large amount of funds managed by the Board (\$11.2 billion) and the spotlight on the Board's investment performance relative to the serious "unfunded pension liabilities" the Board requires the tools and resources necessary to effectively manage the portfolio. These are present law adjustments based on the Board's governing "prudent expert" statute that requires it to minimize risk and maximize return. These resources will assist the Board in fulfilling the law's expectation.

General Investment Consultant: For the first time since the Board was created in 1972, it has hired a general investment consultant to assist in asset allocation, conduct pension fund asset/liability studies, and assist in the selection and monitoring of external investment managers. R.V. Kuhns & Associates was hired in December, 2005 under a 4-year contract at \$250,000 annually. The additional cost above the base to annualize this contract is \$105,000 per year.

Specialist Real Estate Consultant: Based on the findings in the recently-completed asset/liability study of the Teachers' Retirement System and to further diversify pension fund portfolios, the Board created a new real estate pool and is currently searching for real estate managers. R.V. Kuhns will provide the consulting for "core" real estate managers (this is the simplest and lowest risk of all real estate investments that generally consists of low vacancy, high quality properties). Funds managed by core managers are generally open-ended and will accept new clients on a consistent basis. R.V. Kuhns maintains a data base of all core real estate managers which breaks down portfolios by region and real estate type. The firm also tracks performance and portfolio risk.

A consultant specializing in real estate is required to search for and assist in finding quality "value-added" and "opportunistic" real estate managers (these investments are higher risk but also provide higher returns and generally have limited windows of opportunity to accept new clients). The Board hired Courtland Real Estate Advisors in June to assist in these specialized real estate assets. Courtland maintains a data base of all value-added and opportunistic managers,

tracks their risk and performance, and also notices the Board when windows of opportunity to invest are scheduled. The approximate annualized cost for this contract is \$150,000 per year.

Bloomberg Financial Network: Board staff utilizes the Bloomberg Financial System to provide security research and portfolio order management. We have recently been noticed by Bloomberg of price increases to be phased in over the next year. During the next biennium those cost increases will be approximately \$75,000 per year above the FY 2006 base.

Annualized Research Costs: During the past year, the Board has transferred the cost of several research resources from "soft dollars" to "hard dollars", which derive from the Board's budget. Additional research resources were obtained in FY 2006 at the request of the Board's new Chief Investment Officer who was hired in October 2005. The cost per year to annualize the research resources currently utilized by staff is \$60,000.

The total cost of this decision package is \$390,000 in FY 2008 and FY 2009 and is funded from accounting entity 06527. It is estimated that this decision package would impact assessments as follows:

	FY 2008	FY 2009
Requested Fee Assessment	\$ 4,664,072	\$ 4,664,072
Decision Package Amount	\$ 390,000	\$ 390,000
Variance:	\$ 4,274,072	\$ 4,274,072

Administrative Costs Adjustments:

The total cost of this decision package is \$225,822 in FY 2008 and \$83,968 in FY 2009 and is funded from accounting entity 06527. Items requested include adjustments for overtime, Per Diem, rent adjustments, and indirect cost adjustments. The proposal would also provide for asset/liability studies of seven smaller pension funds at an estimated cost of \$140,000 in FY 2008 only ($\$20,000 * 7 = \$140,000$). It is estimated that this decision package would impact assessments as follows:

	FY 2008	FY 2009
Requested Fee Assessment	\$ 4,664,072	\$ 4,664,072
Decision Package Amount	\$ 225,822	\$ 83,968
Variance:	\$ 4,438,250	\$ 4,580,104

New Proposals:

There are no new proposals for accounting entity 06527.

Montana Heritage Commission:

In 1997, the 55th Montana Legislature established the Montana Heritage Preservation and Development Commission to acquire and manage historic properties for the State of Montana. This legislation approved the purchase of nearly 250 buildings, 160 acres of land, hundreds of thousands of artifacts, and, by association, much of the legend and lore surrounding the old mining towns of Virginia City and Nevada City. These towns were the first properties to be managed by the Montana Heritage Commission (MHC). Historic Reeder's Alley in Helena was approved for acquisition, through a private donation, by the Montana Board of Land Commissioners on November 19, 2001.

MHC is responsible for the care of these historic properties, including improvements to building structure and stabilization, conservation of artifacts and protection of the historic integrity of properties and view shed. MHC manages a gift store, railroad, visitor center, open air museum, plus business leases for 25 concessionaires including, two theaters, three liquor leases, saloons, hotels, restaurants, tours, gold panning, an old-time photo gallery, stagecoach, horseback riding, and gift stores. MHC is also in the business of providing information and services for potential visitors to Virginia City, Nevada City and Reeder's Alley. MHC serves as a resource for professionals and public interested in research of Montana history, historic building preservation, and archaeology, conservation of artifacts, education, interpretation, living history and historic site management. The development and expansion of the Virginia City Institute will be a major focus for MHC to emphasize the educational aspects of the project in the future.

Montana Heritage Commission responsibilities are mandated primarily in Title 17, Chapter 7, and Title 22, Chapter 3, MCA.

Mission:

Manage, develop and operate Heritage Commission properties by preserving, stabilizing, rehabilitating, interpreting and exhibiting buildings and artifacts; overseeing and encouraging profitable commercial enterprises while creating and maintaining credible relationships with all stakeholders and partners, and protecting these historic resources for the educational benefit and enjoyment of all.

Guiding Principals:

As the Commission, we believe:

- In saving history through education and the preservation of buildings and collections.
- That by working together with organizations who share our mission, and with membership and "friends" groups, we can better preserve important parts of Montana's past.
- That through education and interpretation, augmented by hands-on experiences, visitors can learn the value of preserving their heritage, and bring the past alive.
- That heritage resources and private enterprise complement each other.
- That development shall take into account the historic nature of the communities.
- That Heritage Commission properties shall continue to be a living and authentic historic experience.
- That sustainable funding is critical to the success of the Commission's mission.
- That heritage properties are precious public assets and that the public shares responsibility for supporting them.
- That the decision to include additional heritage properties under the umbrella of our commission, must be based on sound economic analysis, addressing the ability of the commission to fiscally manage the responsibility.

Vision:

We envision vibrant world-class historic sites, with many recorded visitors, buildings preserved, and artifacts conserved and displayed. When appropriate, workers are in period costume, period food is in evidence, all with the availability of hands-on activities contributing to the heritage experience. Accommodations and services are available to meet the needs of visitors.

Director's Office/Management Services Division:

The Director's Office/Management Services Division consists of three programs:

The Director's Office:

The Director's Office is the central management unit of the Department of Commerce. The office sets policy and offers problem-solving guidance to all divisions and programs.

The office keeps abreast of present Department programs, goals, issues, priorities and overall activities.

The office provides general supervision and acts in a public relations and informational capacity when dealing with the public, Governor's Office, Legislature, and other agencies, ensuring credibility and positive image of the Department.

The Director's Office works closely with economic and community development organizations, businesses, communities, governmental entities, elected officials and the public to diversify and expand the state's economic base through business creation, expansion, retention, and improvement of infrastructure.

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office.

Management Services Division:

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

Virtually every division, bureau, and program in the agency uses the Divisions services. Division staff works closely with a host of other governmental agencies, both executive and legislative, in effect acting as the administrative contact points for the agency. The "central services" aspect of the Division greatly reduces the overlap and the redundancy found in decentralized business environments. These aspects enhance the overall effectiveness and efficiency of the agency by standardizing business processes and employing best business practices in as many areas of the agency as possible, while keeping the costs to supported programs as low as possible.

Management Services and the Director's Office analyze, with program managers, the statutory, administrative, and programmatic objectives of their programs in order to develop performance measures which maximize the benefits of the services provided to the citizens of Montana while minimizing the resources required to achieve those objectives.

The Director's Office/Management Services Division responsibilities are mandated primarily in Title 2, Chapter 15 and Title 90, Chapter 1, MCA.

The Montana Council on Developmental Disabilities (MCDD):

The Montana Council on Developmental Disabilities is a citizen based advocacy group. Its members, appointed by the Governor work to provide increased independence, integration and productivity for persons with developmental disabilities.

In pursuing these goals, the Council administers federal funds in three major areas; 1) assistance in the provision of comprehensive services to persons with developmental disabilities; 2) assistance to the state in appropriate planning activities; and 3) contracting with public and private agencies to establish model programs, demonstrate innovative habilitation techniques and to train professional and paraprofessional personnel in providing services to persons with developmental disabilities.

In 2003, the 58th Montana Legislature transferred the Developmental Disabilities Planning and Advisory Council (DDPAC) from the Department of Public Health and Human Services to the Department of Commerce with the provision the State could contract with a nonprofit corporation for the purposes of carrying out the responsibilities delegated to the DDPAC. In January 2004 the Department entered into a contract with the Montana Council on Developmental Disabilities (MCDD) as a nonprofit corporation. The Department of Commerce remains the cognizant state agency with the Federal Department of Health and Human Services; disbursing (pass through) funds to the MCDD under the terms and conditions of the contract. The MCDD program is funded entirely in HB 2 with federal special revenue and more information is available at the MCDD website, <http://www.mtcdd.org/>.

MCDD responsibilities are mandated primarily in Title 53, Chapter 20, MCA.

Mission:

To enhance the department's mission of economic and community development by effectively and efficiently assisting departmental staff, and setting the visionary direction in which the Department of Commerce does business.

Goals and Objectives:

In order to fulfill its mission the Director's Office/Management Services Division is committed to achieving the following goals and objectives:

Provide a quality internal organizational and support structure for the department's programs that recognizes the importance of satisfying customer needs while assuring the legislature, the public, and management that the department conforms to applicable laws and policies.

Analyze, with program managers, the statutory, administrative, and programmatic objectives of their programs in order to develop performance measures which maximize the benefits of the services provided to the citizens of Montana while minimizing the resources required to achieve those objectives.

Analyze, develop, and implement work processes within the department that support further program efficiency and effectiveness.

Empower staff to remedy problems at the earliest point.

Eliminate outdated and unnecessary rules and regulations that may impede customer service.

Advocate to management the development of systems, policies, and procedures that reduce the amount of paperwork necessary to meet customer needs.

Director's Office – Management Services HB 576 Program Description:

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

The Director's Office and the Management Services Division are funded through an internal service fund; accounting entity 06542.

The Director's Office/Management Services Division responsibilities are mandated primarily in Title 2, Chapter 15 and Title 90, Chapter 1, MCA.

Customers are all divisions, bureaus, programs, and employees of the Department of Commerce. Use of these services is mandated by agency policies and procedures; there are no alternative sources for these services; although the department may contract for legal services from time to time whenever it is most appropriate and cost effective to do so.

There has not been any significant program, service, or customer base change since the last session.

HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

The Director's Office/Management Services Division; is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the divisions indirect cost plan. Indirect costs are allocated to supported programs based upon federally calculated, and legislatively approved indirect cost rates applied to actual personal services expenditures.

The Director's Office/Management Services Division provides all of the services listed in the program description to all department divisions, bureaus, programs, and employees.

The customer base for the Director's Office/Management Services Division includes:

Board of Research & Commercialization Technology
Business Resources Division
Montana Promotion Division
Community Development Division
Montana Facility Finance Authority
Housing Division
Board of Investments
Montana Heritage Preservation and Development Commission
Montana Council on Developmental Disabilities

The revenue objective of the Director's Office/Management Services Division is to maintain the lowest possible indirect charge to supported divisions, bureaus, and programs, while maintaining a nominal 60 day working capital reserve. The department has historically used this methodology in calculating indirect rates because the federal government requires the same methodology to be used when charging indirect costs to federally funded programs.

FY 2006 base year funding, by fund type is as follows:

	FY 2006	%
General Fund	\$ 197,052.95	15.869%
State Special	\$ 368,923.77	29.709%
Federal Special	\$ 119,568.58	9.629%
Proprietary	\$ 556,213.89	44.792%
Misc. Reimbursement	\$ 12.00	0.001%
Totals:	\$ 1,241,771.19	100.000%

Customer expenditures are primarily recorded in SABHRS expenditure codes 62743, and 62827; while Director's Office/Management Services Division revenues are primarily recorded in the following SABHRS revenue codes:

	FY 2006	%
520702	\$ 981,171.31	79.014%
522017	\$ 12.00	0.001%
525045	\$ 25,000.00	2.013%
584002	\$ 235,587.88	18.972%
Totals:	\$ 1,241,771.19	100.000%

Expense Description:

The major cost drivers within the Director's Office/Management Services Division are personal services, operating expenses and expenditures related to the periodic replacement of the agencies computer equipment. The major cost drivers for the division can best be represented in the following table:

	FY 2006	%
FTE	16.50	
Personal Services	\$ 1,005,708.00	82.282%
Operating Expenses	\$ 216,565.00	17.718%
Totals:	\$ 1,222,273.00	100.000%

Factors that contribute to uncertainty in forecasting expenses involve potential legislative actions since the cost of providing centralized support services is directly related to the number and complexity of the agencies divisions, bureaus, and programs; and the number of agency staff served. As agency services and programs increase, or decrease; management needs to remain cognizant of divisions staffing requirements and indirect cost rates and make the necessary adjustments when needed.

For the purposes of this analysis, it is assumed the agencies divisions, bureaus, programs, and staff remain constant. Non-typical and one-time-only expenses are subtracted out of the divisions future cost projections before calculating the indirect rate. The proposed indirect cost rate will fund 17.00 FTE in the 2009 biennium; 0.50 FTE more than the number of FTE approved in the 2007 biennium.

Working Capital Discussion:

The division's indirect cost rate is calculated by dividing projected annual expenses, plus a nominal 60 day working capital reserve, by the projected actual personal services expenses of supported divisions, bureaus, and programs. Federally funded programs are allocated indirect costs by an annually calculated indirect cost rate, while state funded programs are allocated indirect costs via a legislatively approved indirect cost rate.

The division's working capital objective is to recover the costs necessary to fund the division's ongoing operations. The division needs to maintain a nominal 60 day working capital reserve to meet ongoing operational costs.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the Department projects a fiscal year end 2009 ending working capital reserve of approximately 60 days. All interest earnings on the working capital reserve are distributed to the state general fund.

Rate Explanation:

The division calculates a federal indirect cost rate on an annual basis. This rate is a fixed rate for federally funded programs. This rate is then applied against actual federally funded personal services expenditures within the department, not including the Director's Office/ Management Services Division.

The federally calculated rate requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the division under-recovered or over-recovered in a given fiscal year. This computation compares what was originally calculated to what actually occurred. The difference is then carried forward into the following year's rate.

The divisions indirect cost rate is determined based on guidelines prescribed by the federal government. Additionally, the division complies with 17-3-111, MCA, which requires agencies to calculate a rate that would recover indirect costs to the greatest extent possible. In order to comply with this statute, the division has requested a rate that may vary slightly from the annually calculated federal rate. The rate approved by the Legislature is considered a cap; therefore, the division cannot impose a rate higher than what has been approved by the Legislature. However, the annually calculated federal rate may be slightly lower.

Significant Present Law:

The only present law adjustments are for the scheduled replacement of the Department's main file servers and disk storage units, the addition of 0.50 FTE to be used to enhance the agencies web presence, and administrative costs; such as overtime, computer equipment based upon 4 year replacement schedules, and annual rent increases.

The impact of these Present Law proposals on the requested rate is minimal.

Hardware Replacements OTO:

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Hardware	13.130%	13.645%
Variance:	0.87%	0.105%

Web Developer:

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Web Dev.	13.645%	13.432%
Variance:	0.355%	0.318%

Administrative Costs:

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Admin Costs	13.831%	13.635%
Variance:	0.169%	0.115%

New Proposals:

There are no new proposals.